IMPORT QUOTAS LEGISLATION

1851-1

HEARINGS

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETIETH CONGRESS

FIRST SESSION

ON

PROPOSALS TO IMPOSE IMPORT QUOTAS ON OIL, STEEL, TEXTILES, MEAT, DAIRY PRODUCTS, AND OTHER COMMODITIES

PART 1

OCTOBER 18 AND 19, 1967

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE
[illegible] WASHINGTON : 1967

For sale by the Superintendent of Documents, U.S. Government Printing Office
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IMPORT QUOTAS LEGISLATION

WEDNESDAY, OCTOBER 18, 1967

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

The committee met, pursuant to notice, at 10:05 a.m., in room 2221, New Senate Office Building, Senator Russell B. Long (chairman) presiding.

Present: Senators Long, Smathers, Anderson, McCarthy, Hartke, Ribicoff, Harris, Williams, Bennett, Curtis, and Dirksen.

(The committee press release announcing these hearings follows:)

[Press release, Committee on Finance, Sept. 29, 1967]

RUSSELL B. LONG, CHAIRMAN, ANNOUNCES COMMITTEE HEARINGS ON IMPORT QUOTA LEGISLATION

Senator Russell B. Long (D., La.) Chairman of the Senate Finance Committee, today announced that the Committee will hold three days of public hearings beginning October 18, on various proposals to impose import quotas on specified commodities. Among the commodities on which he indicated testimony would be taken, Chairman Long mentioned *oil, meat, lead and zinc, textiles, steel* and *dairy products*. With the exception of steel, bills dealing with these commodities have been introduced in the Senate. Steel has been the subject of a year-long study by the Committee staff.

The Chairman reported that because considerable interest had been expressed by legislators for imposing quotas on all of these commodities, the Committee was setting aside time for those in favor of quotas and those opposed to them to present their cases. He stressed, however, that the enumeration of commodities he described should not be construed to bar statements with respect to other products.

Senator Long indicated that since the hearing was not to exceed three days, it would be necessary to limit the number of witnesses who would be able to make oral statements. He stressed that it was important for persons with common interests to consolidate their statements so that one spokesman could present the similar views of several like-minded groups. Persons who will not be scheduled to present a personal statement to the Committee may submit written papers for the record. These papers will be given the same consideration by the Committee as though they had been delivered orally. Witnesses who are scheduled to appear are urged to make their statements as brief as possible to conserve the time of the Committee.

Leading off the hearing will be spokesmen for the Administration. Representatives of the State Department, Commerce Department, Interior Department and the Agriculture Department will be heard, with respect to those commodities on which quotas have been proposed which fall within their jurisdiction.

Those desiring to participate in this proceeding should make their request to Tom Vail, Chief Counsel, Committee on Finance, 2227 New Senate Office Building, no later than *Friday, October 7*. All statements should include a summary sheet and subject heading. Statements to be presented orally should be submitted to the Committee the day before the witness is to testify. Chairman Long urged persons desiring to contribute written statements to submit them no later than October 20, 1967.

The CHAIRMAN. This hearing will come to order.

This morning we commence hearings for 3 days or perhaps longer with regard to proposals to impose quotas on certain imports that have been submitted to the committee for consideration.

We have with us today several of the outstanding public servants of this country: the Secretary of State, Mr. Dean Rusk; the Secretary of Agriculture, Mr. Orville Freeman; we are honored to have both of you, and we are honored to have the Secretary of the Interior, Mr. Stewart Udall; the Secretary of Commerce, Mr. Alexander Trowbridge; and Ambassador Roth, the Special Trade Representative of the President and the principal U.S. negotiator in the Kennedy round of trade agreements.

I believe our first witness will be the Secretary of State, Mr. Dean Rusk.

If it is agreeable with the committee, in order to expedite the hearings, I suggest we permit the Secretaries to make their statements first and then, having the full statements before us, we will try to limit ourselves during the first round of questions and after that we will proceed as the committee wishes.

Mr. Secretary, we extend to you and your colleagues a hearty welcome. It has been a long time since I have welcomed such an array of executive talent before this committee. It attests to the importance which you must attach to the legislation on which we are taking testimony. I might add that many of us in the committee and in the Senate also attach great importance to this same legislation.

We recognize that the United States plays a major role in foreign trade. It is the world's greatest single market. Our exports, now running at a rate in excess of $30 billion a year, constitute about 16 percent of total world exports, even though in relation to our gross national product, they are only 4 percent. Our imports are only slightly less.

We would like to keep it that way or even improve it to help our balance of payments. But with imports coming in under conditions which prevent domestic producers from competing fairly with nontariff barriers to U.S. exports springing up around the world, it is time someone began to show a little concern for our own people.

The Secretary of Agriculture is going to tell us this morning that it was protectionist trends in Europe which caused the troubles of the U.S. dairy industry as export programs of European countries automatically dumped surplus dairy products on the world market at distress prices.

Our Finance Committee staff is completing work on a report of the impact of steel imports. It is going to show that the same situation is largely behind the sharp hikes in U.S. steel imports.

The European markets are substantially closed to Japanese textiles and many other of their products. Their protectionist attitude—in some instances, they don't even grant most-favored-nation treatment to the Japanese—forces Japanese products, produced at wage rates far below our own, into the U.S. market.

As for petroleum, if it were not for the administrative quota now applied, the great differential in foreign oil costs would mean that practically all of our oil would be imported and there would be no domestic industry. It costs $3 a barrel here, but foreign oil can be aid down in this country at approximately $1.50 a barrel.

Now, before you gentlemen begin your statements, let me express the hope that you will provide answers to these questions, demonstrating that unilateral action in trade matters is not limited to this country.

What happened to U.S. tobacco exports to Australia when they decided to grow their own? The action Australia took was unilateral.

What happened to the U.S. chicken exports to the Common Market? The action the Common Market took in that instance was unilateral.

What happened to U.S. exports to Great Britain when they unilaterally imposed a tariff surcharge on virtually all their imports?

What happened to U.S. leather exports to Japan when they decided to place an embargo on our producers? In that case the action was unilateral against us.

What is going to happen to U.S. agricultural exports to the Common Market when they raise the variable levy again? We know it is coming. What happened when they raised it last time? That is a unilateral act and I might add the variable levy is one of the most diabolical devices in restraint of trade that the mind of man has yet conceived.

This hearing today does not concern a matter which can be branded simplistic "free trade" or "protectionist" labels or slogans. There are problems for many industries and workers in this country, due to sharp increases in imports. Many members of this committee, including this Senator, worked hard for the Trade Expansion Act of 1962, but we are keenly aware of the manifold problems at home, and we are going to find solutions for them.

A score of U.S. industries have come under increasing competition from imports. This Nation has thrived on competition, and "Yankee traders," if given an equal opportunity to compete, will strengthen this country. But there are numerous indications that the rules of competition are not equal. I have cited some. I will just mention a few other barriers which foreign countries have established against U.S. trade, some of which seem to be occuring even after the Kennedy round agreement: The increase in European protectionism under the variable levy system, export subsidies, import equalization fees, border taxes, cartels, government procurement practices, dumping, import quotas, and a host of administrative practices and procedures, which while not written into law, nevertheless constitute an effective wall against imported products and against our exports. These are cases in point.

We do not want to deny anybody a fair access to our markets, nor do we like it when others act unilaterally to shut us out of their markets. Not only is our market the greatest in the world, but there are fewer nontariff barriers here than anywhere else. If foreign countries can erect nontariff devices to substitute for tariff barriers which are coming down around the world, the United States should demonstrate that it, too, has ingenuity in this respect. Otherwise, we are going to become patsies to the rest of the world and U.S. industry and employment is going to be sacrificed in a blind effort to "uphold our international commitments."

Try explaining to a U.S. textile worker who just lost his job because of rising imports that it is all in the national interest. Tell that to his family. Tell them their father was laid off so we could keep our "international commitments."

We here in Congress have another commitment—a commitment to our own people. We hope these hearings will bring out the facts involved in each situation and their ramifications.

I want to make it clear that the committee has not prejudged the situation. We want to hear from all sides, examine all the facts, and then determine the course of action that we feel is in the best interests of this Nation.

Senator BENNETT. Mr. Chairman.

The CHAIRMAN. Yes.

Senator BENNETT. Mr. Chairman, I have a statement that I hoped to get in the record before the testimony began. I would like to offer it for the record and take less than a minute to highlight my point of view.

Mr. Chairman, I think the serious problems caused by foreign imports must be faced. The fact that there are four members of the President's Cabinet this morning indicates that the administration's position will be very well presented, and its story very well told. There are, of course, two sides to every question, and the real service that is being rendered here is the opportunity for the injured American industries and parties to present their side.

I think it is very important in dealing with this whole problem that we understand at the beginning that the several industries, particularly those related to agriculture, who will be heard here are not asking that foreign exports be excluded. These parties who will testify will testify for a variety of quota systems, and they realize that the United States must import if it hopes to export.

Utah is an important producer of domestic mink, and our mink people will come later asking only that import quotas be pegged as high as 40 percent of domestic consumption. To me that appears to be very generous, particularly when one considers that the American market was originally developed by American producers rather than the foreign importers who are now taking advantage of it.

Mr. Chairman, I want to thank you for scheduling these hearings during the course of which producers of many products now being injured by imports will have the opportunity to tell their story.

(Senator Bennett's statement follows:)

STATEMENT OF HON. WALLACE F. BENNETT, A U.S. SENATOR FROM THE STATE OF UTAH

I am very pleased that the Chairman has seen fit to conduct these hearings.

The serious problems caused by foreign imports must be faced. I'm sure that the Administration will tell its story very well. There are, of course, two sides to every problem, and the real service that is being rendered here is the opportunity for the injured industries and parties also to be heard.

There will be a great deal said here about free trade. It will have the support of the Administration, the academic world and the nations and foreign industries that benefit from it at the expense of American farmers and industry. But throughout this land there are farmers and businessmen who, in spite of very efficient operations, are finding it most difficult, and in some cases impossible, to compete with foreign imports. For once someone must listen to their story, and it must be understood if a workable solution can be found.

I think it is very important in dealing with this whole problem that we understand that the several industries, particularly those in agriculture, are not asking that foreign imports be excluded. Those parties who will testify for a variety of types of quotas realise that the United States must import if we hope to export. They realise that most countries produce many products cheaper than the United

States. They are only asking that import practices be examined and where necessary brought into proper balance.

It is unfortunate that the agricultural parity ratio is only 73 at the present time. Many dairy, cattle and mink farmers are being driven off their farms through no fault of their own. I know what the free traders would say about that situation. However, these independent businessmen face the prospect of losing a major investment, and in some cases their life's savings.

Utah is an important producer of domestic mink. Our mink people for instance are only asking that import quotas be pegged at 40 percent of domestic consumption. To me that appears to be very generous, particularly when one considers that the American market was and continues to be developed almost solely by the American mink industry.

Our dairy and cattle people are only asking that loopholes and evasive practices which have seriously injured their operations be closed.

Our mink, dairy and meat producers have found no longterm remedy to the import problem. They are forced to live with yearly fluctuations, market changes and cheap imports to the extent that mink farming, dairy farming and cattle production have become a hazardous economic venture.

Our lead and zinc producers only ask for a fair share of the American market. The same can be said for the domestic oil industry.

Mr. Chairman, again I want to thank you for scheduling these hearings.

Senator SMATHERS. Mr. Chairman, I wonder if I might make a very brief statement as long as this seems to be the practice. As long as you say the committee has not prejudged this matter and to prove there is a diversity of opinion about it, I would like to say as one who has supported very enthusiastically the Trade Expansion Act of 1962, and who also applauded very enthusiastically the results which we achieved at the Kennedy round in Geneva just this past year, and believing that what was achieved will be helpful to our overall economy, I must confess, Mr. Chairman, that I have grave doubts about the wisdom of holding hearings at this time with respect to quotas on specialized commodities before we have even given the results of the Kennedy round an opportunity to work or be felt.

Furthermore, I have additional doubts as to the wisdom, if I have read correctly, of taking any steps which might attach the quota bill to the so-called social security bill. I think the social security bill is an essential bill and to get it involved with any sort of a quota bill to which it has absolutely no relationship is very dangerous insofar as the 20 million elderly people in the United States are concerned who are depending upon us passing a social security bill this year.

So I shall sit back and wait and observe these hearings. But I do so with grave misgivings. I believe, as the Senator from Utah has said, our country has been made great in many respects because we have been willing to import in order to export. And I believe we can meet overall any type and character of competition, and I think that our economy is strong today primarily because of our willingness to compete through the world.

Senator HARTKE. Mr. Chairman, I would just like to ask a question. I understand that the Cabinet members are to be called to a meeting, to a Cabinet meeting at 12:00. As a matter of procedure is this going to be the full extent of the opportunity to question these members?

The CHAIRMAN. No; not at all, Senator Hartke. This is late in the session, as you know, and if we are going to vote on these proposals that have been suggested we will have to abbreviate the hearings insofar as we can. I certainly hope to offer every Senator the same opportunity that I would accord myself to ask questions of the witnesses, and I have no intention of cutting off anyone. In fact if you want to make a statement at this time go right ahead.

Senator RIBICOFF. Just one comment, Mr. Chairman. While I am a cosponsor of some of these proposals, I think it would be the height of shocking irresponsibility to try to tie this on to the social security bill. This would be a great disservice to 22 million Americans who are waiting the results of the social security improvements that have been advocated. I hope that we will keep our perspective and, while we may have a difference of opinion on trade matters, we won't tie this to the social security bill and thereby kill social security for 22 million people.

The CHAIRMAN. Senator Harris, do you desire to make a statement?

Senator HARRIS. Mr. Chairman, I have a statement from my senior colleague, Senator Monroney, who is presiding, as you know, over the Post Office and Civil Service Committee this morning and could not be here and I would just ask that at the appropriate place in the hearing that be inserted in the record.

The CHAIRMAN. That will be done. (See p. 362.)

Senator ANDERSON. I do have a statement, but I thought because of the size of the crowd I would like to file it.

The CHAIRMAN. Thank you very much, Senator Anderson.

(Senator Anderson's statement follows:)

STATEMENT OF HON. CLINTON P. ANDERSON, A U.S. SENATOR FROM THE STATE OF NEW MEXICO, ON IMPORT QUOTA LEGISLATION FOR LEAD-ZINC, OIL, AND POTASH

Mr. Chairman, I bring to this committee's attention the problem of three of this nation's strategic industries: lead and zinc, oil, and potash. These industries are vital to our national defense and all are of extreme importance to the State of New Mexico. I believe that legislation must be enacted or some kind of action is essential if we are to prevent foreign imports from jeopardizing the continued stability of these industries.

LEAD-ZINC

As the members of the Finance Committee know, adequate supplies of lead and zinc are basic to our national security and the development of our economy. Our country is blessed with substantial reserves of these two metals, but despite increasing demand, the domestic industry has been characterized by peaks and valleys in its operations and in the financial return from those operations. Successive Congressional and Tariff Commission hearings have established the fact that this dangerous and unwholesome instability is the direct result, in large part, of excessive imports from low-wage-cost mines overseas.

The domestic lead-zinc industry, as in the case of any other large-scale industry, requires stability. The American economy and security must not be dependent upon foreign countries whose governments might not always be friendly to us in an hour of need.

Also, I am certain that many members of the Committee are aware that for a substantial number of years now I have vigorously advocated legislation to help stabilize the domestic lead-zinc industry. There is before this Committee at the present time S. 289, a bill which I sponsored for myself and 27 Senators from both parties. This measure would provide flexible quotas on imports of lead and zinc for a five-year period beginning on the date of enactment. These quotas would come into effect only if needed when supplies of either metal on hand reached levels considered excessive to normal requirements. It is not, and I wish to emphasize the "not," a price-fixing measure in any sense of the word nor is it a subsidy measure. Nor does it establish rigid import tonnages. Rather, foreign suppliers are guaranteed a share of the United States market, and this share cannot go below a fixed minimum, distributed on a country-by-country basis.

Thus, the proposed legislation provides a measure of protection and incentive to operators of the domestic mining and smelting industry by stabilizing ore supplies and metal stocks in relation to consumption at reasonable market prices based on normal operations of supply and demand. The smelting and refining industry will be assured of adequate raw material supplies to maintain their operations and friendly exporting nations will have a fair share of our markets. The consumer will share the benefits with the producer through long-term market stability of metal price and supply.

The Interior Committee, which has initial responsibility for mines and mining generally, and for the development of mineral resources of the public domain, held hearings on S. 289 in April of this year and favorably reported it. The bill was then properly re-referred to this Committee.

Mr. Chairman and members of the Committee, I am not wedded to the flexible quota approach provided in S. 289. However, I am firmly convinced from the record of the hearings over the years by the Interior Committee and by the Tariff Commission that our domestic lead-zinc industry does need assistance through legislation. Action through the Tariff Commission or by the Executive Branch has proved futile. Clearly, the responsibility is one for the Congress to shoulder at this time, and I most earnestly urge that the Finance Committee answer the need for initial action either through S. 289 or some other legislative vehicle.

OIL

As a citizen and senior Senator from a state in which lies a substantial part of the great Permian Basin, one of the greatest energy reservoirs of our nation, I am also vitally interested in the oil import program. On the working of this program—on its success or failure in fulfilling its stated objective of promoting our national security—depend the continued conservation and development of this vast natural resource, and the livelihood and well-being of many thousands of my fellow citizens of New Mexico.

Of course, the issue is far greater than the well-being of a single state. It is essential to all the people of all of the states that we have a viable domestic oil and gas industry. We must not be dependent upon foreign imports. So vital is this matter to our national security that I do not think it should be left wholly to administrative discreation as it now is. Therefore, I have joined with the distinguished chairman of this Committee and 27 other Senators in sponsoring S. 2332. I do not contend that this bill is necessarily perfect in its present form, but in principal we believe it would go a long way in solving the oil import problem. But I am convinced that control over imports of oil should be the responsibility of Congress and the subject of legislation duly considered and acted upon by it.

POTASH

The production of potash is another important domestic industry that is having its troubles. Although it is recognized that there is room as well as a need for imports of various strategic materials such as potash, it must also be recognized that our nation's security is dependent, to a large extent, upon a stable domestic industry capable of supplying these same materials. In the case of potash, I need only remind you of the tremendous problems this nation faced during World War I when almost all potash imports were cut off without a domestic industry upon which to fall back.

Today the potash industry's very existence is being threatened by ever increasing imports. In New Mexico, potash is the state's largest mining industry employing approximately 4,000 people with an annual payroll of $25 million, having gross sales of over $111 million and paying over $10 million in annual local and state taxes and royalties and over $10 million in annual Federal taxes. In 1962, potash mining was launched on a large scale in Canada. Since that time the production and sale of Canadian potash has grown by leaps and bounds. Today, Canadian potash has become so competitive for the United States market that the Bureau of Customs has recently instituted anti-dumping proceedings to ascertain whether or not potash is being imported in violation of the Federal Anti-Dumping Act.

Unmatchable Canadian tax breaks and low freight rates have caused United States producers to begin moving segments of their operations to Canada. As a result, our domestic industry is in the process of shrinking in production capacity. The total disappearance of a meaningful domestic potash industry is a distinct possibility.

I thank the Committee for the opportunity of presenting my views of these matters, especially as they relate to the economy of the State of New Mexico. I am hopeful that these hearings will assist us in reaching the right solution to these problems.

Secretary RUSK. Mr. Chairman and distinguished Senators——

Senator DIRKSEN. Mr. Chairman, you haven't asked me yet.

The CHAIRMAN. Senator Dirksen, I didn't call anyone but certain Senators who indicated they wanted to supplement what I said in the opening statement of the chairman, and I accorded them that privilege. I certainly respect a similar statement from the minority leader of the Senate.

Senator DIRKSEN. I just want to express my pride at the opportunity to sit in on a cabinet meeting. [Laughter.]

The CHAIRMAN. Thank you very much, Senator.

Secretary RUSK. Thank you, Mr. Chairman.

The CHAIRMAN. I would suggest that we permit the statements of the Cabinet officials to be made, because I know that there is a meeting at the White House at which the various Secretaries of the Departments are expected to be present. I will try to see that every Senator has a chance to ask at least one or two questions and we will resume any questions in discussion we want with the President's Cabinet at some future point, perhaps tomorrow or later when they are available to us. But there will be representatives of each Department available this afternoon as well. Will you proceed, Mr. Secretary?

STATEMENT OF HON. DEAN RUSK, SECRETARY OF STATE

Secretary RUSK. Thank you, Mr. Chairman and gentlemen. With regard to Senator Hartke's remark, the other Cabinet meeting has been deferred for about 45 minutes so we do have a little more time here this morning.

It is a great pleasure for me to appear here with my Cabinet colleagues to comment on the international economic and political implications of a unilateral retreat to protectionism affecting large sectors of our national economy.

I am sure that all of us here realize that the matter before us is one of fundamental importance. For 33 years it has been the policy of the United States to lower, on the basis of reciprocity, barriers to international trade. This policy has served our Nation well. It has contributed, I believe—especially since the Second World War—to the remarkable rise in our national prosperity and in the standard of living of our people. At the same time it has served our vital interest in promoting world peace, by helping to make it possible for other nations to obtain the goods which they need from abroad through trade.

Recently, another major advance in freeing world trade was achieved: the successful conclusion of the Kennedy round negotiations. Your committee now has before it proposals which, if adopted, would not only destroy the advance made in the Kennedy round but reverse a longstanding national policy. The consequences of such a repudiation would be critically detrimental to our basic national interests.

We live in an age when nation states can no longer afford the luxury of indulging in sudden actions which affect others without the most careful scrutiny of the probably repercussions. If we glance back a few decades, we find the interdependence of the world economy had even then reached a point where unilateral actions on a grand scale were self-defeating. Thus, an effort by this country to isolate itself from the world economy through the Smoot-Hawley tariff led to offsetting actions by others, resulting in a spiral of trade restrictions whose invidious effects are only now—37 years later—on the verge of being eliminated as a major force in world affairs.

The name of one of my distinguished predecessors, Cordell Hull, immediately comes to mind when one reviews the recent tariff history of this country and our championship of the cause of lowering barriers to trade. I in no way minimize his tremendous contribution if I observe he has had lots of company. Democratic and Republican administrations alike—from Roosevelt to Lyndon Johnson—and the Congress too, have consistently supported the broad thrust of the same foreign trade policy. This has been so whether or not the majority in Congress has been of one party or another, and whether or not that majority has been of the same party as the President.

The reasons for this consistency are not, I believe, very difficult to find. First, there is the fact that a policy of trade restrictionism had been tried and found to be a failure. Secondly, the extraordinary growth of science and technology gives an entirely different dimension to the old, respected, and sound theory of comparative advantage. Modern industrial society is built around the concept of productivity: high output at low unit costs. Our comparative technological lead, plus our higher labor costs, has made it more and more to our advantage to have the access to world markets made possible by a liberal trade policy. For, in the familiar phrase, "trade is a two-way street." I don't apologize for using that cliche, because it expresses a basic truth—a reality which is vital in maintaining the prosperity of this country and the entire fabric of international cooperation we have constructed so carefully over the years.

Let me emphasize that the Department of State's approach to international trade is not theoretical. We are deeply concerned with the practical problems of American business—its owners, managers, and workers. A strong national economy is the indispensable foundation for our national security, and for our efforts to organize a reliable peace. Promotion of our national economic growth has been an objective of our foreign policy since Benjamin Franklin first went abroad as our first Ambassador to stimulate the trade of this country.

Five years ago especially I instructed our chiefs of mission abroad to take an active personal role in assisting American firms to expand export markets. Where our products have been subjected to unwarranted restrictions, we have negotiated to remove such restrictions. I, myself, on one occasion made a trip to Bonn to discuss chickens with the Chancellor of the Federal Republic of Germany.

I might insert here just a comment, Mr. Chairman: we are aware of the variety of restrictions to American exports that we find in other countries; and we are constantly wrestling with those. I think never a week goes by without some serious discussion with other governments about some of the very restrictions which you talked about. I am not suggesting that, in any sense, we are the only offender or are considering becoming the only offender in this very complex matter. There is much to be done in terms of what other governments are prepared to do on their side to open up the channels of more liberal trade.

We have greatly expanded our programs to assist American businessmen to do more business abroad. Over 10,000 trade opportunities a year are uncovered by the U.S. Foreign Service and disseminated to the U.S. business community through Department of Commerce facilities

All dynamic businessmen want more business—for them, there is no such thing as enough. This quality has had a lot to do with the growth and performance of our economy. But resort to political action to obtain governmental intervention in behalf of a particular industry raises serious problems, when one of the consequences would be damage to some other American producers. If, as a nation, we wish to sell, we must buy. Realistically, we cannot talk about chipping away half of the Kennedy round without talking about losing the benefits of the other half.

Let us suppose that all or most of the restrictions on imports currently being considered were put into effect. What would other countries do? Would they issue protests, make nasty speeches and criticize us? They would do a great deal more than that. They would undoubtedly strike back. Nor would this be an unfriendly act on their part. Indeed, a number of our leading trading partners, with all of whom we have the closest political ties, have already submitted formal diplomatic notes to the Department of State expressing their very great concern about the possible impairment of trade concessions negotiated with us if the bills under consideration were to become law. Australia, for example, drew our attention to its estimate that 60 percent of Australia's exports to the United States would be affected if these restrictive measures were applied.

Retaliation would simply be what is permitted by the rules of the game as that game is now practiced by some seventy countries accounting for about 85 percent of world trade. I refer, of course, to the General Agreement on Tariffs and Trade—the GATT.

The GATT is essentially a code of conduct for fairplay in international trade. The United States played a major role in its negotiation in 1947. Like many of the great initiatives of the early post-World War II days, it reflected a conviction that there must surely be a better way to organize man's affairs than had been the case in the preceding decades of self-centered nationalism. In the area of international trade policy, the GATT represents an attempt to prevent a repetition of some of the economic blunders of the 1930's.

The GATT does this by establishing a legal framework for the stability of trade concessions negotiated in good faith among sovereign countries. We accord others access to our market in return for the right of our exporters to sell in their markets. If we impair the access we have agreed to give others, two courses of action are available under the GATT. We ourselves can offer reductions of our import barriers on other products equivalent in trade value to the impaired concession. Or the foreign country can withdraw concessions affecting an equivalent trade value for American exports in the foreign market. This may sound a bit complicated—the legal language of the GATT is much more complicated—but the idea is clear. It is retaliation—by agreement among all parties in advance that restrictive action by one party entitles the aggrieved party, as a matter of legal right, to compensatory action.

As this committee knows, the administration's authority to negotiate reductions of our trade barriers expired on June 30 of this year. What would happen today if we were to impose new trade or tighter quotas affecting $6.3 billion or more of our imports? The prospects would be nothing short of appalling.

As we would be unable to offer compensatory reductions of other trade barriers because our authority has expired, foreign countries would automatically and promptly remove an equivalent value of trade concessions granted to the United States either in the Kennedy round or in earlier negotiations. Moreover—and I would like to stress this point because I fear it is not well understood in this country—we could not choose the sectors which foreign governments might select for increased barriers against our exports. Many foreign governments would be likely to make it as painful as possible for us, hoping thereby to bring us to our senses, as they would see it.

We have the sovereign right, of course, to impose restrictions to protect particular sectors of our economy, but we have no control over who will pay the costs. Thus a congressional decision to isolate our steel industry from foreign competition might be paid for not just by higher prices for steel in this country but by reduced foreign sales opportunities for our farmers, our producers of machine tools, computers, canned fruit, automobiles, and who knows what else. And reduced sales opportunities for our export industries mean reduced production, employment, and profit in these industries.

We cannot act in isolation in trade policy, any more than we can in political and military policies. A way of giving this inescapable fact of modern life the attention it deserves would be to include a separate section on who should pay the price for proposed legislation which aims at restricting foreign access to our market. Just to illustrate it, such a section or title might express the sense of Congress that, if foreign countries do not consider the United States has inflicted sufficient punishment upon itself by requiring its citizens to pay higher prices for the particular product, then it is hoped that retaliation will be focused on certain specified U.S. export items which the Congress feels are best able to suffer the consequences. Of course, foreign interests probably would not respect such advice—indeed, would no doubt deliberately select other more vulnerable targets. But, by including some such provision in the bill or the legislative record, Congress would cause the public to face the fact that there are penalties for restrictive trade legislation.

Let's examine for a moment what some of those costs might be. It is a very complicated statistical task to match up domestic production, exports, imports, and employment. Therefore our statistical compilations for these interrelationships have a long leadtime. The figures I will give in a moment are a bit dated—1964—but that has the effect of minimizing rather than exaggerating the possible consequences. We exported computers valued at $369 million in 1964—this was 18 percent of our total domestic output in an industry of 160,000 workers. Exports of tractors valued at $188 million accounted for 20 percent of the output of our farm machine industry of 147,000 employees; 14 percent of our domestic output of commercial refrigeration equipment amounting to $83 million was exported that year from an industry with 70,000 employees. There are innumerable other examples in the industrial sector, which we can—material on which we can furnish to the committee.

For agricultural products more up-to-date figures are available. U.S. commercial sales abroad, not food aid, in fiscal year 1966, included feed grains valued at $923 million, oils and seeds valued at $825 million, fruits and vegetables, $371 million, wheat and flour at $344 million, tobacco $264 million, cotton $246 million, rice $127 million, and many others. These are, I repeat, commercial sales.

Which of these sectors of our economy do you think is prepared to have a smaller market, reduced sales, lower prices, lower profits, and a shorter workweek in exchange for insulating other sectors of our economy from import competition?

If we keep out our imports, foreigners will keep out our exports, which means reduced employment for Americans. As trade barriers rise, there will be an increased incentive for our own entrepreneurs to establish or buy up subsidiaries abroad in order to get inside the barriers erected against our direct exports. Again, this would mean fewer jobs for Americans. Our farmers don't have this option; they simply have smaller sales and lower prices. Thus, trade restrictions do not help keep jobs here; they, it seems to us, do just the opposite.

Our domestic economy, our trade policy, and our foreign relations can and do survive occasional departures from the objectives we have pursued for so many years. We have had what are called escape clause actions over the years—not many but not insignificant in trade terms. These exceptional procedures provide additional time for industries to adjust to import competition. Other countries also do things from time to time which adversely affect our trade and give rise to diplomatic complaints. But as I indicated, these have been actions which attract attention because they have been genuinely exceptional. We are currently confronted with an array of protectionist appeals which, if the Congress were to succumb, would constitute not an exception to, but a reversal of, policy. It would be beyond the bounds of plausibility for us to argue internationally that U.S. trade restrictions affecting $5 or $6 billion or more of our imports were just an exception. That is the immense volume we think might be involved if we were to further restrict all forms of textiles, steel, petroleum, watches, meat, dairy products, and lead and zinc. All of our trading partners—and virtually all of them would be affected—would interpret such a move, correctly I believe, as a fundamental shift in American trade policy.

The particular form of protection being sought by most of the special interest groups is that of quotas. Quotas are illegal under the GATT except under certain carefully prescribed circumstances, which do not cover the kind of sweeping protection currently pending in the Congress. The general GATT prohibition against quotas was adopted largely at American insistence—it has always been regarded as one of the GATT's greatest achievements. This is because the absolute limitations imposed by quotas are a far more drastic interference with market forces than even high tariffs which can be overcome by increasing efficiency, reducing costs, or offering a product with special design, quality or other features. However, no amount of efficiency or ingenuity can overcome a quota, and the resulting monopoly position of domestic producers reduces the incentive for cost reduction and product improvement. In addition to these disadvantages, quotas are difficult and costly to administer.

I should like to offer an observation as to the international negotiability of some of the proposals now pending before the Senate. Some of them would give the administration a few months to negotiate so-called voluntary restraints with foreign governments, failing which the quotas would be imposed by the United States—and in a more restrictive form. It is difficult for me to visualize a "negotiation" on this basis. In relations between friendly countries, there is always a reluctance to negotiate under threat, and we ourselves would be under the threat of retaliation at the end of the day. Thus, while there is an aura of reasonableness in some of these bills it is in my opinion a false one. I have commented on some of the economic costs of trade restrictions. There would be other costs which are equally important to me in my capacity as Secretary of State. They would tear at the fabric of international cooperation and economic development we have so carefully nurtured over the years in our efforts to build a more peaceful world for future generations.

A reversion to a protectionist policy would nullify 20 years of our efforts in Western Europe to build up a healthy partner able to defend itself and join us in meeting the vast needs in other parts of the world. A massive outbreak of trade restrictions in the United States would turn Western Europe inward and against us because they would have no realistic alternative. This would have incalculable consequences for our political and military positions. Economically, it would destroy the great initiative of John F. Kennedy embodied in the Trade Expansion Act of 1962 and the multilateral achievement which bears his name: the Kennedy round. My colleague, Bill Roth, will speak to this point in more detail.

To many poor nations of other continents, an outbreak of trade restrictions in America would occasion more than just despair. They too would retaliate with such weapons as they possess, economic as well as political.

The international political ramifications of our trade policy are a weighty factor in the daily conduct of foreign relations. A very large number of foreign ministers expressed their great anxiety to me in New York just a few weeks ago about where this country is going on trade policy. The subject of trade policy was one of the focal points of the Joint United States-Japan Cabinet Committee meeting in Washington last month. Earlier in the year, when I accompanied the President to the meeting of chiefs of state of the Inter-American system at Punta del Este, trade policy was again a major topic of discussion and on the part of our Latin-American friends, a matter of gravest concern. This is so because we in this country, with our continental market and vast indigenous natural resources, could get by without foreign trade if—and it is a very big "if"—we were willing to forgo the benefits of competition and pay the costs of substitutes, fewer choices, higher prices, lower profits, and reduced employment. We would have a poorer life. Perhaps it would be endurable—although we cannot lightly dismiss the danger of precipitating a serious depression. In any event, most other countries are more dependent on foreign trade than we are. For many of them, it is a life-or-death matter. Therefore, they watch the trend of opinion in this country with an anxious eye for the signs of a shift in trade policy which could be disastrous for them.

I have tried to assure my foreign colleagues that America will not repudiate its liberal trade policy. I have told them that it is only human that those who benefit from our liberal trade policy remain rather satisfied but, unfortunately, also rather quiet, while those who feel themselves under some pressure, real or imagined, speak with a loud voice and try to enlist action by Congress to revise our basic policy. I have assured them as forcefully as I know how that this administration thinks this would be a great mistake.

It is my earnest hope, Mr. Chairman, that these hearings will help clear the air in this country and abroad as to where the United States stands on trade policy. The administration is opposed to a retreat into protectionism because it will harm our domestic economy, injure rather than help our labor force, contribute to inflationary pressures, and undermine our foreign policy by breeding hostility and discontent when we need peace and cooperation. That would be far, far too high a price to pay. Instead of tearing down the trade policy that has helped so much to increase our annual exports from the very low level during the depression to over $30 billion last year, and helped provide new job opportunities for our industry and farmers, we—the executive branch and the Congress—should be working together to strengthen that policy and improve it to meet the new tasks of the coming decades.

Thank you very much, Mr. Chairman. My colleague, Mr. Udall, has a statement.

STATEMENT OF HON. STEWART L. UDALL, SECRETARY OF THE INTERIOR

Secretary UDALL. Mr. Chairman, I have a prepared statement, and I would like to have it appear in its entirety, and to save time I am going to skip a few paragraphs and hit the highlights.

Mr. Chairman, I share Secretary Rusk's concern over the damage that might be done to our economy and to our foreign relations by this legislation.

As far as commodities under my authority I am particularly concerned that action to erect more barriers at this time would incite retaliation from abroad with respect to commodities which we export. Coal is a good case in point. We have ample reserves of coal which can compete effectively in the world marketplace, provided artificial trade barriers are not erected. But if we are in the process of placing impediments in the path of international trade, are we not inviting—indeed insuring—similar action by other countries?

Exports of U.S. coal earn about one-half billion dollars annually as a credit toward the U.S. balance of payments. During the past 5 years coal exports have stabilized at approximately 50 million tons annually—an unprecedented level in a nonemergency period. This remarkable record has been achieved despite the existence of coal trade barriers in several of the major importing countries. To most nations in which barriers do not exist or have been relaxed, U.S. coal has registered significant gains, and there are positive indications of further relaxation in the next few years. We have been working on that constantly.

Recent studies of foreign market potentials for U.S. coal indicate possibilities for increasing exports to 80 million tons or more annually, provided we are not prevented from competing. Restriction of imports of other commodities and products to this country would tend to create more restrictive coal import policies in those countries which now have them, but more importantly such action would probably encourage the adoption of restrictive policies by countries which are now increasing their imports of U.S. coal.

Similarly, we are opposed; to the enactment of such measures as S. 289, which would provide for the imposition of quotas on imports of lead and zinc. Our reasons are set out in some detail in a separate statement which, with your permission, I would like to offer for the record here.

(The statement referred to appears at p. 524.)

Trade restrictions have been covered in general. However, there is one point which has been mentioned only briefly upon which I should expand. I am speaking of one exception under the General Agreement on Tariffs and Trade. Quotas are illegal under GATT except for certain specified circumstances. A very notable one is the national security of the nation involved and oil falls under this exception. In fact, I hate to see a lot of it discussed as a matter of trade. I think oil should be discussed strictly as a matter of national security. Imports of oil from abroad are controlled—and are permitted entry only within a quantitative restriction.

I would like to state here my firm view that, in the present world petroleum situation, oil imports should be controlled in the interests of our national security. I think there has always been a strong case for this and there is today. This is the paramount, the only reason why such imports are controlled. In no sense does this position alter my views with respect to opposing trade barriers generally. But in the case of oil, our security would be jeopardized unless we have a strong, healthy, domestic oil industry, capable of meeting the demands of any conceivable emergency. One only has to look at the Middle East and what happened there a few months ago; Israel had to win or lose a war in a matter of days because of the fact that the mobility of their machines rested on very limited supplies of petroleum and I just use this to underscore what I mean.

This we could not do if low-cost oil from petroleum-exporting countries were to flood this country, with consequent damage to our own energy-producing industries.

The relationship between our national security and adequate supplies of oil is clear. On this score, it suffices to point out that oil is practically the sole source of energy for transportation—both civilian and military, and we are a highly mobile Nation.

Adequate domestic supplies depend upon exploration and discoveries and these activities will not be carried on in the absence of an adequate market for domestic production.

It was with these circumstances in mind that in 1957 the President's Special Committee To Investigate Crude Oil Imports reported to President Eisenhower that, taking all factors into consideration, our national security requires the maintenance of some reasonable balance between imports and domestic production at this time, and as a result of that, the President took action that ended in 1959 in the mandatory program under Presidential proclamation. The report to President Eisenhower is as follows:

> Your committee recognizes that there are important foreign policy aspects to the problem of limiting petroleum imports. The oil reserves and production capacities of other free nations, as well as our own, are important to our national security. A number of countries inevitably depend in varying degree upon access to our domestic market for their petroleum exports and it must be recognized that it is also in the interest of our national security that our allies and friends have healthy and expanding economies. It is believed, however, that taking all factors into consideration, our national security requires the maintenance of some

reasonable balance between imports and domestic production at this time. In light of the foregoing considerations, our recommendations are framed with the objective of limiting imports in order to maintain such a balance and yet to allow other nations to participate in the growth of our domestic demand to a degree consistent with our national security.

An attempt was made to attain a reasonable balance in 1957 to 1958 through the voluntary program recommended by the Committee. The attempt failed. The President was advised by the Director of the Office of Civil Defense and Defense Mobilization that, in his opinion, "crude oil and the principal crude oil derivatives and by-products are being imported in such quantities and under such circumstances as to threaten to impair the national security," and mandatory controls were imposed under the authority of the Trade Agreements Extension Act of 1958.

In my judgment, the recent Mideast crisis had no harmful impact on our economy or on our ability to carry on the conflict in Vietnam largely because the United States was not dependent upon foreign oil. Our oil industry was healthy and capable of meeting the increased demands placed on it, including assistance to Canada and Western Europe during recent months.

Mr. Chairman, I understand this committee has asked me to furnish the background of the oil import program. I have here what started out to be a "brief history" but even a brief history of such a complicated subject is rather long. I request, therefore, that this "history" be inserted in the record at this point and I will summarize the high points before I mention some further details on oil in general with specific reference to the oil import control program.

Briefly summarizing the past, after World War II was over, there was a rush of drilling activity not only in the United States, but throughout the world. Huge reserves were discovered, particularly in Venezuela and the Middle East, and later in north and west Africa. The United States for the first time became a net importer of oil in 1948. From that point on, imports continued to increase with interruptions during the Korean war and Suez crisis of 1956–57. The concern over these rapidly increasing imports resulted in efforts by the Government to restrict imports through voluntary action.

A formal voluntary oil import program was instituted in 1957 but it failed. I see no particular point in going into the reasons why this failed. It is enough to say that it did fail and this failure was recognized by all concerned. The result was that the mandatory oil import program was placed in effect on March 10, 1959.

The level of imports in districts I–IV—the area east of the Rocky Mountains—was originally set at 9 percent of demand. In the fall of 1962 the proclamation was amended to provide that the imports into districts I–IV would be limited to 12.2 percent of domestic production. Some members of this Committee were involved in that arrangement, this became effective for the year 1963, and in the following year this was changed to 12.2 percent of estimated production.

The level of imports into district V—the west coast and Arizona, Nevada, Alaska, and Hawaii— a crude deficit area, was set at the difference between domestic supply and total demand, with overland oil from Canada counting as a part of the supply. In other words, offshore imports were to be used to fill the supply-demand gap.

Now a brief word on overland imports. Shortly after the mandatory program began, it was felt that the national security aspects of the program made it necessary to recognize the relative security of Western

Hemisphere oil production which could be delivered directly to the United States by land. Recognizing this fact of life, the proclamation was amost immediately amended to exempt from the licensing requirements of the program oil imported overland from the country of origin. Oil imported from Mexico under this exemption is limited to 30,000 barrels per day by agreement with the official Mexican oil agency, PEMEX.

Oil is imported overland from Canada to district V via trans-mountain pipeline and to districts I–IV mainly via the interprovincial-Lakehead pipeline system. This oil supplies refineries along the northern border in Puget Sound—district V—and in St. Paul, Minn., Superior, Wis.; Alma and Detroit, Mich.; Toledo, Ohio, and Buffalo, N.Y., for districts I–IV. This is a thumbnail sketch and if I may I would like to show something of the impact of the program as briefly as I can. I have a number of charts; they are attached to your statement, but we also have them here and I just want to very quickly hit some highlights.

They will indicate the extent of increased imports from Canada, virtually all of which, it might be pointed out, is delivered by pipelines, the same as the majority of oil is delivered from U.S. oilfields to refining centers. I might add that as far as the east coast is concerned, the refining centers there are mainly dependent on crude oil received by tanker from the gulf coast or from abroad.

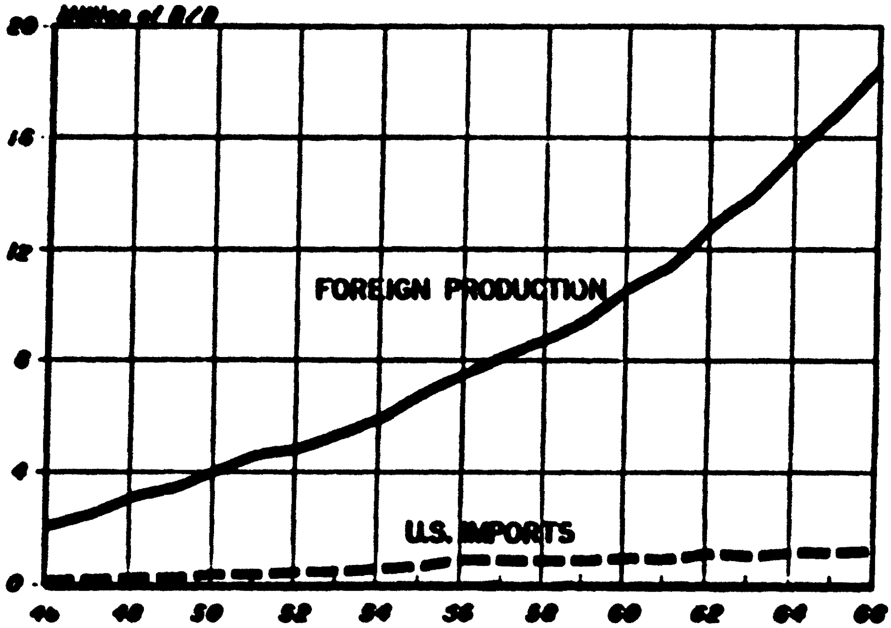
The level of imports into Puerto Rico is set to provide for the demand on the island, exports to foreign areas, and limited shipments to the United States.

This, in brief, is a thumbnail sketch of the oil import program and its development over the years. Now, if I may, I would like to show something of the impact of the program.

The CHAIRMAN. Might I suggest that those charts be placed over here in this corner, so everyone in the room can see them?

CHART 1

FREE FOREIGN CRUDE OIL PRODUCTION AND U.S. IMPORTS OF CRUDE AND UNFINISHED OILS



Secretary Udall. Since World War II the growth of oil production outside the United States has been tremendous. As shown in this first chart, free foreign production has increased from 2 million barrels per day in 1946 to more than 18 million barrels per day in 1966; and more than one-half of this production has resulted from activities of U.S.-owned companies that have done a really remarkable job in helping other countries develop those resources.

Senator Smathers. May I ask, you have on the chart here foreign production running from zero to 20 and on the bottom you have U.S. import. Does that reflect what U.S. production is? Why did you shift from production to imports?

Secretary Udall. No, this is showing, Senator, merely the imports to the United States over this same period. It is really the postwar period and that has shown a tremendous growth of production and yet imports into the United States——

Senator Smathers. They are not importing a great deal more, or we are not importing a great deal more, but they have a great deal more production.

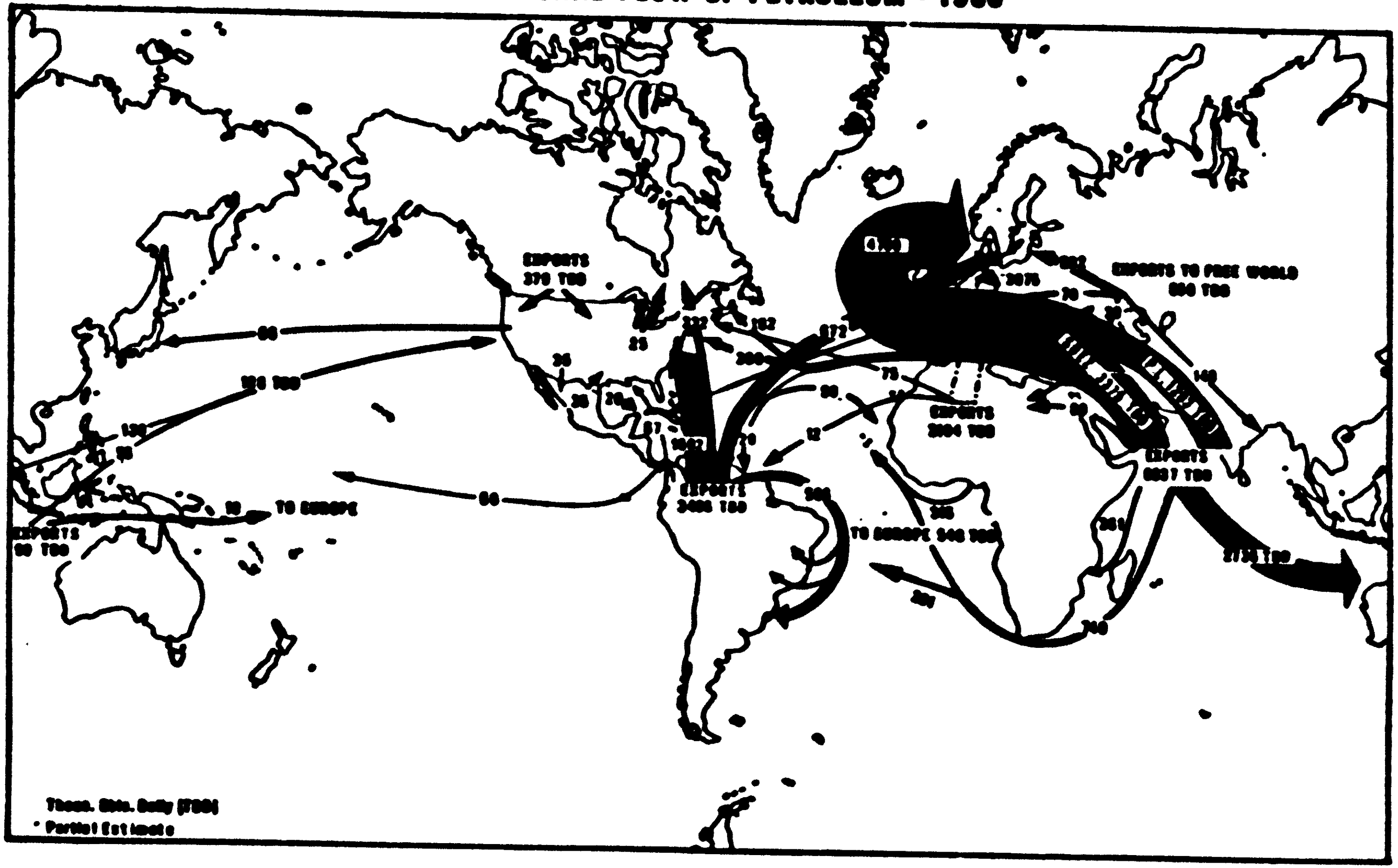
Secretary Udall. That is precisely it. And the world consumption of petroleum has increased enormously during this period.

Oil production in this area is prolific compared to the United States. For example, it is not uncommon for a well in the Middle East to produce more than 5,000 barrels per day while the average production per well in the United States is about 12 barrels per day, and any well States is considered to be extremely good. Imports into the United States have remained almost constant, in relation to domestic production since the inauguration of the mandatory oil import program in 1959.

Our second chart shows the international flow of petroleum in 1966. Oil is by far the largest commodity in international trade and, as shown by the arrows on this chart, by far the largest flow of oil is from the Middle East to Europe and to Far Eastern areas. As you can see from the chart, most of the oil moving into the United States comes from our neighbors in the Western Hemisphere.

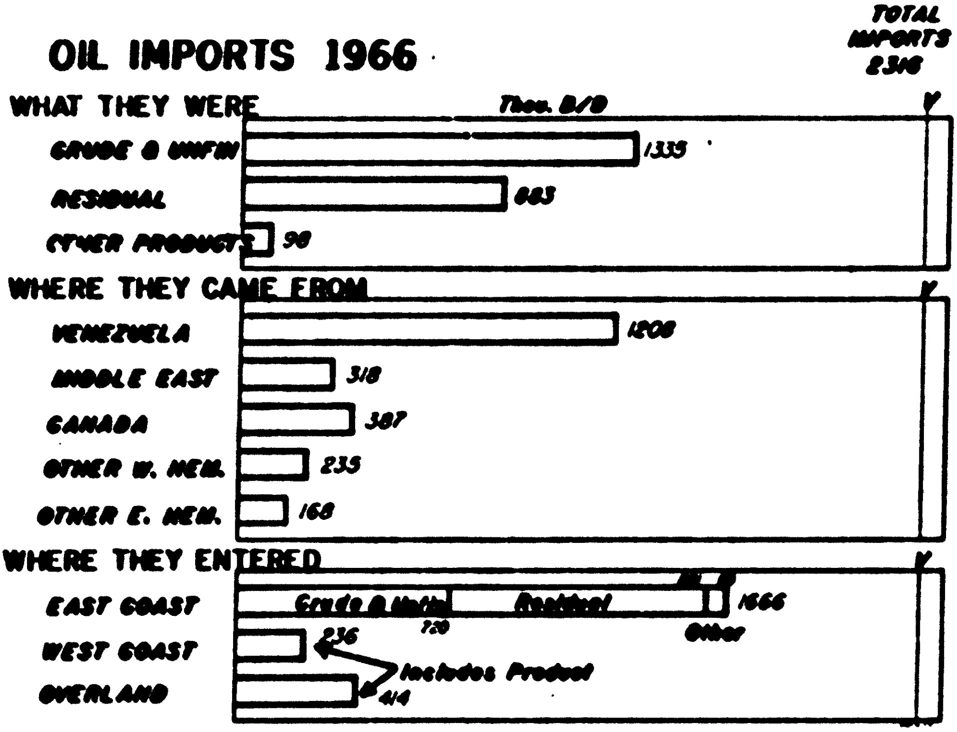
CHART 2

INTERNATIONAL FLOW OF PETROLEUM - 1966


EXPORTS
370 TBD
EXPORTS TO FREE WORLD
TBD
EXPORTS
TBD
EXPORTS
TBD
EXPORTS
TBD
TO EUROPE
TO EUROPE TBD
EXPORTS
90 TBD
TBD
TBD
Thous. Bbls. Daily (TBD)
* Partial Estimate

The third chart shows U.S. oil imports in 1966; what they were, where they came from, and where they entered the United States. Total imports into the United States in 1966 were 2,316,000 barrels per day. Of this quantity, the most important segment was crude oil and unfinished oils, which amounted to 1,335,000 barrels per day. Residual fuel oil imports were 882,000 barrels per day and other petroleum products constituted 98,000 barrels per day.

CHART 3



The origin of our imports during 1966 is shown in the last portion of the chart which indicates that our largest source of imports, 1,208,000 barrels per day, or almost one-half, come from Venezuela. Imports from the Middle East were 318,000 barrels per day, or about 3 percent of total U.S. consumption. There has been a myth around that we are dependent on the Middle East for our petroleum supply. This is 3 percent of the total and we just demonstrated during the past summer that when that is cut off or seriously reduced we didn't even break the stride. In other words, we have the strength and capacity to handle any reduction of that order.

Imports from Canada were 387,000 barrels per day, nearly all of which came in by pipeline. From other Western Hemisphere countries, such as Colombia and Mexico, we received 235,000 barrels per day, and from other Eastern Hemisphere countries, such as Libya, Nigeria, and Indonesia, 168,000 barrels per day were received. Most of the oil from overseas areas was imported into the east coast.

This fourth chart shows that our source of imports into districts I–IV has shifted during the 8 years we have had an import program. Imports from the Middle East have not changed appreciably while imports from Canada have grown rapidly. There have been some real discoveries in Canada as you know. Imports from the new producing field in Africa have grown in recent years while crude oil imports from Venezuela have declined. However, while not shown on this chart, the decline in crude imports from Venezuela have been offset by increased residual fuel oil imports from that country.

CHART 4

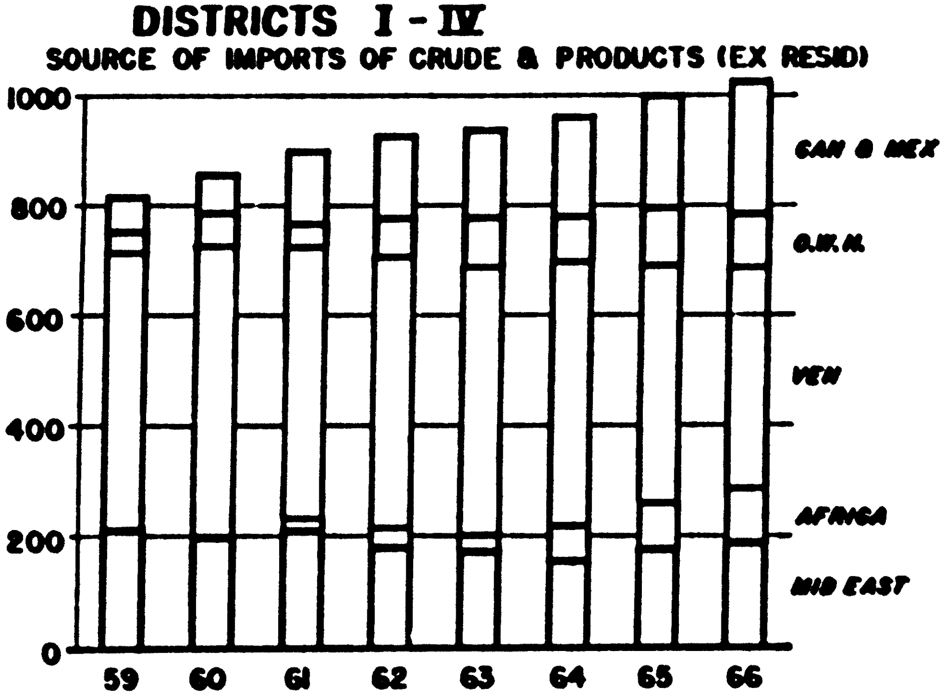
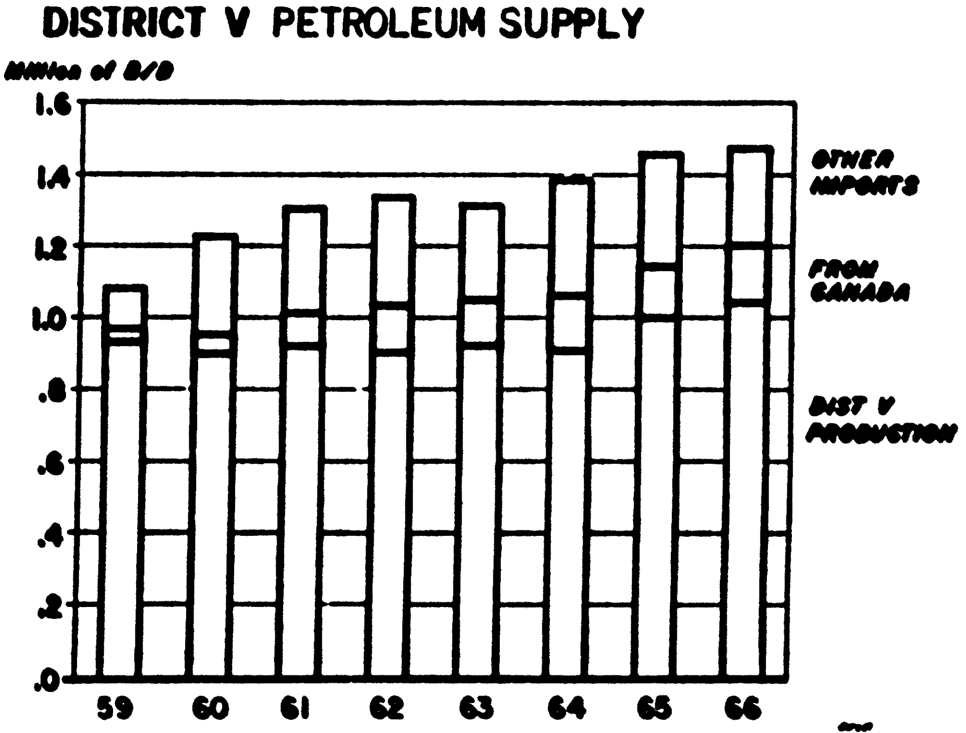
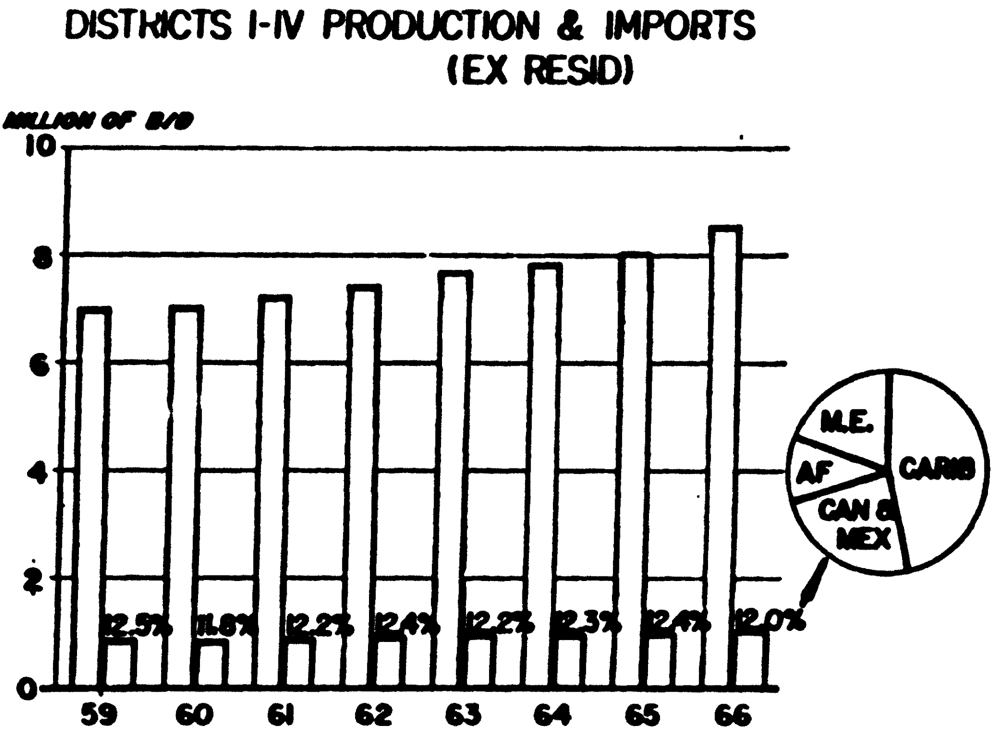


CHART 5



The fifth chart illustrates the operation of the oil import program in district V, which is the west coast area and includes Alaska, Hawaii, Nevada, and Arizona. Domestic production on the west coast remained static through 1964, but in the last few years has increased significantly while imports from overseas areas have decreased. The future of domestic production also looks promising due to extensive exploration in west coast offshore areas and with production in Alaska increasing rapidly.

CHART 6



Our last chart shows production and imports in districts I–IV, the area east of the Rocky Mountains. During the life of the oil import program from 1959 through last year, domestic production has increased from about 7 million barrels per day to over 8½ million barrels per day. Imports in the same period increased from 873,000 barrels per day to 1,027,000 barrels per day. As this chart illustrates, for the whole period, the oil import program has restricted controlled imports to an average of about 12.2 percent of domestic production. I want to say this is represented in my judgment in terms of the work we have had to do, the cooperation with other nations, a very substantial accomplishment. If we exclude the first year of the program——

The CHAIRMAN. Does that calculation include district V?

Secretary UDALL. No, this is district I–IV, Mr. Chairman. If we exclude the first year of the program which we should because controls did not apply for the first part of that year, the average for the period is 12.18 percent. In other words, we got slightly under the 12.2 percent. We believe that maintenance of a 12.2 percent ratio of imports to production in districts I–IV demonstrates that there is no need for such legislation as is proposed by S. 2332.

One of the main provisions of S. 2332 would change the basic authority for controlling imports to a rigid public law instead of by a Presidential proclamation which allows flexible action under administrative techniques that have worked extremely well for nearly a decade. I submit that experience under three Presidents shows clearly that the flexibility inherent in the present program has enabled us to achieve the national security objectives of the program.

I pointed out earlier that the national security foundation of the mandatory oil import control program requires that we "preserve to the greatest extent possible a vigorous, healthy petroleum industry in the United States," while we, at the same time, prevent serious dislocations "in oil industries elsewhere which also have an impact bearing on our own security * * *." Our security also includes the security of their areas. This philosophy, most recently, was the basis for activating the voluntary agreement under the Defense Production Act to assure adequate petroleum supplies to Western Europe and other free countries of the world.

Other oil producing areas, particularly those in the Western Hemisphere, are our good customers for exports of all products. We are convinced and emphasize therefore that imposition of rigid controls pursuant to fixed formula would not only result in serious repercussions in our foreign relations with those friendly to us, most closely to us, but would adversely affect continued growth of our exports by inviting retaliatory action on the part of our major trading countries.

Since we have maintained imports administratively over the whole period of the program at about 12.2 percent of domestic production, which is the principal aim of S. 2332, we find no need for such legislation. Our principal concern in Interior is a means of increasing our reserves, and maintaining our productive and refining capacity looking toward the future ever-increasing demand for petroleum energy.

A review of the past indicates we have succeeded in maintaining a healthy petroleum industry which within the past 3 months has demonstrated its ability to meet an international petroleum emergency and meet it very effectively and we will in my judgment. This has been done under the existing program. We believe the enactment of S. 2332 would serve no beneficial purpose but would only make it more difficult to meet unexpected contingencies, and create a whole host of new pressures and problems for consumers on the east coast in particular, for the U.S. petroleum industries as a whole.

I thank you.

(Background material supplied by Mr. Udall follows:)

Background of the Mandatory Oil Import Program

After World War I, there was a general belief that the United States eventually would be forced to depend upon foreign sources for the bulk of its petroleum. Accordingly, no effort was made to restrict oil imports, which by 1921 had risen to 28% of domestic demand. In the late 1920s domestic exploration resulted in the discovery of large reserves and changed the domestic supply-demand balance from shortage to surplus. Excessive domestic production coupled with unrestricted imports led to Federal action in 1932, when there were imposed import duties of 21 cents per barrel on crude oil and residual fuel oil, and duties in excess of $1.00 per barrel on gasoline, motor oil and lubricating oil.

Import duties proved to be an ineffective barrier to increasing volumes of imported oil. Although excise taxes were at their highest in 1932–1933, the Government, under the National Industrial Recovery Act, imposed mandatory quantitative restrictions on oil imports and domestic production. During the period of the restrictions, the Government limited such imports to approximately 4½ percent of 1932 domestic demand. Subsequently the United States became a large exporter reaching a peak of 530 MB/D in 1938. These exports were eroded until the nation became a net importer in 1948, because of large foreign discoveries, particularly in Venezuela and the Middle-East.

In July 1954, the President established an Advisory Committee on Energy Supplies and Resources Policy. The committee was directed to make a study on energy supplies and resources in the United States "with the aim of strengthening the national defense, providing orderly growth and assuring supplies for our expanding national economy and for any future emergency."

In February 1955 the committee reported and expressed the belief: "that if the imports of crude and residual oils should exceed significantly the respective proportions that these imports of oils bore to the production of domestic crude oil in 1954, the domestic fuels situation could be so impaired as to endanger the orderly industrial growth which assures the military and civilian supplies and reserves that are necessary to the national defense. There would be an inadequate incentive for exploration and the discovery of new sources of supplies."

On June 21, 1955, section 7 of the Trade Agreements Extension Act of 1955 became law. This statutory provision required the Director of the Office of Defense Mobilization to advise the President whenever the Director had "reason to believe that any article is being imported into the United States in such quantities as to threaten to impair the national security."

Following the receipt of such advice, the President was authorized to make an investigation and, if he found an article was being imported in such quantities as to threaten to impair the national security, he was authorized to adjust the imports of such article to a level that would obviate the threat.

In August of 1955 the Director of ODM called the attention of companies importing oil both to section 7 of the Trade Agreements Act of 1955 and to the recommendations of the Advisory Committee on Energy Supplies and Resources Policy and thereafter, in effect, requested that importing companies restrict their imports in accordance with the committee's recommendation. The Advisory Committee and the Director continued to keep the situation under surveillance and on several occasions issued warnings to importing companies with respect to the quantity of oil programmed for importation.

Following a hearing on a petition filed by the Independent Petroleum Association of America alleging that the importation of oil threatened to impair the national security, the Director of ODM, in December 1956, issued a statement that evidence presented at the hearing "confirmed the conclusion that imports in excess of the (Advisory) Committee's recommendations would threaten to impair the national security" and that "programs of the importing companies recently filed with the Office of Defense Mobilization show that the plans they had formulated for 1957, if carried out, would be contrary to the Committee's recommendations and would constitute a threat to our national security." However, because of the Suez crisis in 1956, the Director suspended action on the petition filed by IPAA.

In April 1957, following the resolution of the Suez crisis, the President was advised by the Director of ODM that he had reason to believe that crude oil was being imported into the United States in such quantities as to threaten to impair the national security. The President, agreeing with the advice given him by the Director, stated that he would cause an investigation to be made, and asked the Director to investigate the possibility of the limitation of imports of crude oil by individual voluntary action. Thereafter the President appointed a six-man Special Committee to Investigate Crude Oil Imports. This committee was headed by the Secretary of Commerce and included the Secretaries of State, Defense, Treasury, Interior, and Labor. In July of 1957, the Special Committee advised the President that a limitation on imports of *crude oil* was required in the interest of the national security. The committee recommended a plan for voluntary limitation of imports into the area east of the Rockies (Districts I–IV).

The committee observed that the West Coast (District V) was a crude deficit area and that the level of imports must be such as to make up the difference between the demand and the quantity of domestic crude oil available to that area. While the committee did not initially propose voluntary restrictions on oil imports into District V it subsequently took such action. The Special Committee also recommended that new importers should have an opportunity to enter and share in a reasonable manner in the United States market. The committee's recommendations were approved by the President and the Department of the Interior was chosen to administer the Voluntary Oil Import Program.

In the latter part of 1958, it became evident that the Voluntary Oil Import Program was not accomplishing the desired purpose. This failure was attributed to excessive imports by a few companies not complying with the voluntary program and increased imports of unfinished oil and products.

On January 22, 1959, the Secretary of State and the Deputy Secretary of Defense requested the Director of OCDM to conduct an investigation of the affect upon the national security of imports of crude oil, its derivatives and products. On February 27, 1959, the Director reported to the President that, in accordance with this investigation pursuant to Section 8 of the Trade Agreements Extension Act of 1958, crude oil and the principal crude oil derivatives and products were being imported in such quantities and under such circumstances as to threaten to impair the national security.

On March 6, 1959, the Special Committee to Investigate Crude Oil Imports submitted a report to the President recommending a program imposing mandatory controls on crude oil and on liquefied petroleum gases, gasoline, kerosene, jet fuel, distillate fuel oil, lubricating oils, residual fuel oil, and asphalt. The Committee recommended that, in Districts I–IV, the level of imports of crude oil, unfinished oils and finished products, other than residual fuel oil, be limited to 9 percent of total demand for Petroleum Products in those districts, (changed to 12.2% of production in 1962) and that imports of finished products should not exceed the 1957 level. In District V the level of imports of crude oil, unfinished oils and finished products, was to be limited to such an amount as, when added to domestic production and supply, would approximate total demand in the District. The Committee further stated that imports of crude oil and finished products into Puerto Rico should be limited to the level of imports during all or part of the year 1958. While the Committee recommended that imports of residual fuel oil be set at the 1957 level, it also recommended that the Secretary of the Interior keep such imports under review and that he be authorised to adjust the level of such imports. The Committee's report contained other recommendations on other aspects of the program, including the allocation of imports. The President, on March 10, 1959, issued Proclamation 3279, which in substance carried into effect the Special Committee's recommendations.

On March 10, 1959, in issuing Presidential Proclamation 3279, the President stated:

"The new program is designed to insure a stable, healthy industry in the United States capable of exploring for and developing new hemisphere reserves to replace those being depleted. The basis of the new program, like that for the voluntary program is the certified requirements of our national security which make it necessary that we preserve to the greatest extent possible a vigorous, healthy petroleum industry in the United States.

"In addition to serving our own direct security interests, the new program will also help prevent severe dislocations in our own country as well as in oil industries elsewhere which also have an important bearing on our own security. Petroleum, wherever it may be produced in the free world, is important to the security, not only of ourselves but also of the free people of the world everywhere.

"During the past few years, a surplus of world producing capacity had tended to disrupt free world markets, and, unquestionably, severe disruption would have occurred in the United States and elsewhere except for cutbacks in United States production under the conservation programs of the various state regulatory bodies.

"The voluntary controls have been and the mandatory controls will be flexibly administered with the twin aims of sharing our large and growing market on an equitable basis with other producing areas and avoiding disruption of normal patterns of international trade."

The CHAIRMAN. Thank you, Mr. Secretary.

Now, Secretary Freeman.

STATEMENT OF HON. ORVILLE L. FREEMAN, SECRETARY OF AGRICULTURE

Secretary FREEMAN. Mr. Chairman, I appreciate the opportunity to talk with this committee on the vital matter of foreign trade. I use the term "foreign trade" deliberately. We cannot talk about further restricting imports without talking about restricting exports. Moreover, we cannot talk about industrial trade and agricultural trade separately. In this context, they are not separable. What happens in one sector too often has a direct impact on the other.

From where I sit, I see this regularly. Just the other day we were reminded by another government that what the United States does on watch imports will have a direct impact on whether we will be able to export poultry parts. It gets that specific. And the United States does some reminding of this kind also, in its fight to keep U.S. exports high.

That is why I have always taken a keen interest in all our trade actions, across the board. That is why I am alarmed at the quota proposals before us. We seem to be losing sight of the importance of our exports.

For 7 years now, we in the U.S. Department of Agriculture have worked hard to expand our agricultural exports, and I have had the satisfaction of seeing them grow from $4.5 billion in fiscal year 1960—the year before I took office—to a new record of $6.8 billion in the 1967 fiscal year that ended last June. Exports for dollars climbed from $3.2 to $5.4 billion in that period.

These agricultural dollar export earnings are important—

To the country as a whole. Only a few months ago, when we were talking about the U.S. balance of payments, Secretary Fowler told me that we would long since have faced a national economic crisis of grave proportions—that the value of the dollar would have been seriously undermined—were it not for the substantial flow of dollars into our accounts from agricultural exports;

To industry and commerce. Without them, farmers would not have maintained industrial farm inputs at their high levels; transport, banking, insurance, and port activities would have been at lower levels;

And to farmers most especially. Without these export dollars, farm income would have suffered severely.

The exports facts should by now be well known by all farmers. But let me repeat them.

Production of one out of every four cropland acres harvested is exported.

Exports provide employment for one out of every eight farmworkers; they account for 17 cents out of the farmer's market dollar.

Farm exports have been increasing at a rate substantially higher than domestic consumption of farm products. An increasing percentage of many farm products is being exported. For five major farm products, exports exceed 40 percent of the value of farm sales.

And when commercial farm exports for dollars are compared to farm imports, the farmer clearly comes out ahead. Out of our total agricultural exports, well over $5 billion are commercial sales. These are dollars earned. Against this we have around $2.5 billion of agricultural imports that are more or less directly competitive with our agriculture—meat, wool, dairy products, sugar, and so on. We could say these are dollars spent. Thus, for every $2.50 imported, we export $5 commercially. We have a good business. And a lot to lose.

A continuing climb in U.S. exports is more important to American farmers than to any other major segment of our economy. If farmers support protectionism, they are making a serious mistake, because they are endangering their own export market.

These facts have been repeated over and over. Perhaps that is the trouble. Perhaps we have said them too often—have talked ourselves into believing that ever-increasing exports will come to us as a matter of course.

Well—they will not.

Exports have not just grown. We have worked at it—hard. We have invested money and time in market development, in product promotion, and in reducing foreign barriers to trade so that we can sell more. We continue to work hard on all fronts to export more and more. The level of effort on these fronts is—up, up, and up.

We must not be fooled by the idea that countries buy from us, and will keep buying from us, simply because they need our products. That is bad reasoning. There are very few of our export products that other countries cannot produce for themselves, or buy elsewhere, or do without if they really want to. We fight a daily battle against restrictionist forces in these countries all the time. Sometimes progress is slow, but we are making progress—witness the steady climb in agricultural exports.

If other nations conclude that we are acting in an unreasonable and protectionoist manner—that we are shutting them out of our markets unfairly and without justification—they are not only perfectly willing and capable of shutting us out from theirs, they are likely to do so.

I have spoken at some length on the problem or exports and the need for expanding trade, because it is absolutely crucial for us in agriculture. We must never overlook the impact on exports when we consider imposing import controls.

Agriculture everywhere does have special problems. Generally speaking, all over the world farm incomes are only half those in other sectors of the country's economy. To help meet such problems, virtually every government has stepped in with price and income and other support programs. These in turn can have severe repercussions on trade. To deal with these repercussions, the United States sometimes has to control imports.

But we should be certain before we act to put on controls:

That there is a clear and present need for additional protection;

That the protective instrument chosen fits the need;

And that the dollars-and-cents cost of our action in lost exports will not be way out of proportion to the benefit it confers on some of our producers.

These are sensible, pragmatic tests.

Let me turn specifically to the question of the need for additional protection on dairy products. At the outset, it should be made clear that we have experienced unique circumstances in dairy as a result of the efforts of foreign countries to protect their dairy farmers' income.

The subject of dairy imports is of great concern to me. It is a part of the U.S. dairy income and price picture. No problem I have had as Secretary has been more difficult and more unyielding than that of trying to achieve a stable and healthy dairy economy. The dairy problem is also intimately related to the Department's budget; in the cost of the dairy price support program and the operations of the Commodity Credit Corporation.

Dairy imports rose rapidly and very substantially, beginning in early 1966. We had become a target for countries whose dairy policies had resulted in surpluses. These were flooded into the United States, circumventing our import control system.

As background to this problem, let me point out that because of systems of high dairy support prices, protected by strict import controls, production of dairy products in some foreign countries had increased to the point that heavy surpluses were a glut on their markets. Under such circumstances in the EEC, for example, an export program operates almost automatically to move these surpluses out of the EEC at distress prices. Because of this surplus world situation, increasing quantities of butter were entering the United States as a butterfat-sugar mixture in circumvention of then existing U.S. controls. This butterfat could not have gone to other potential markets such as Japan, or the United Kingdom, or Canada. These all have tight controls on imports. It came to the United States.

Because our domestic milk production was down, about a year passed before prices dropped and the CCC started to buy heavily.

As soon as it was clear that our inventory acquisitions and expenditures were going to continue to be sizable, we moved to bring dairy imports under full control—specifically, to halt evasions of the import quotas established under section 22 of the Agricultural Adjustment Act, as amended.

In March, I recommended to the President that he initiate section 22 action looking toward these objectives. In this move, we had the full support and leadership of President Johnson, who directed the Tariff Commission to carry out the required investigation promptly and expeditiously—which it did.

The result, to be brief, wes to stop the flood of imports. Presidential Proclamation 3790, issued June 30, 1967, put import quotas on those items which had accounted for virtually all of the import upsurge. Our purpose was to prevent these imports from interfering with our income programs by bringing total dairy products imports back to the level which had prevailed from the establishment of import controls under section 22 in 1953 until 1966. During [that period, dairy imports, taken altogether, were equal to something less than 1 percent of our domestic dairy production.

Domestic dairy production this year is expected to be about 120 billion pounds, milk equivalent. In establishing the new dairy import quotas, the administration has aimed at holding the dairy import total—quota items and nonquota items combined—to approximately 1 billion pounds, milk equivalent.

While our section 22 action was being taken, we heard a lot of sharp criticism—both of the law and the manner in which it was being carried out. We were told that section 22 was too slow, too cumbersome to provide an effective remedy. What hes been demonstrated is that this is just not so. We faced a difficult and very complex problem, both domestically and internationally; we acted under the legislation; all concerned had the opportunity for a fair hearing; and we have achieved a solution.

In brief, section 22 has stood the test. It enables us to deal with special agricultural problems as and when they arise—flexibly, selectively, and successfully.

Our critics say that we cannot really control imports—that the smart boys will always be able to find loopholes. My point is that the situation can be kept under control, using the legislation which we now have, and that the recent section 22 action has demonstrated this.

The Congress has before it numerous bills, most of them identical, to require across-the-board import restrictions on all dairy products—including items containing butterfat or nonfat milk solids which are not usually thought of as dairy products. I think we all recognize that a blanket import ban would seriously hurt our foreign trade. Almost surely it would provoke foreign retaliation against our farm exports.

As I judge the situation now, there is no need to pay this price. Imports have been cut back to a tolerable level. We expect to keep them there. Our foreign trading partners did not like the new controls which were applied under Presidential proclamation, but they recognized the fact of evasion, and they have long ago accepted our use of section 22 to protect our farm programs from serious injury. This is important. It means that our foreign suppliers are much less likely to retaliate against our exports to them when controls go on. As I see the situation today, we have faced the dairy import problem, and we have already overcome it.

Let me now turn to the question of beef imports, where we also had a special problem. In the early 1960's our only market protection was a modest duty. We have no domestic support system. Other countries' systems, however, were becoming more heavily supported and protective. The EEC was perfecting its variable levies; the United Kingdom had a domestic support system which made it increasingly less profitable for exporters to sell there than in the United States. Japan had strict quotas. Thus, quantities of fresh, chilled, and frozen beef and veal were flowing to the United States from exporters who found it impossible or much less profitable to sell elsewhere. The heaviest imports of these products occurred in 1963 and led to the enactment of the meat import law of 1964 (Public Law 88-482).

The meat import law does not actually impose quotas. It sets a target which imports cannot exceed in any year without triggering quotas. If quotas are imposed, they will hold imports to a level based on average imports in the 1959-63 period, adjusted to take account of change in U.S. production.

The limit on imports under the law would be approximately 6.7 percent of domestic production. Actually, imports in 1966 were 5.6 percent of production, and we expect them not to exceed 5.8 percent this year. By contrast, imports amounted to 8.6 percent of production in 1963.

What our importers bring in, by and large, is beef for manufacturing. The price effect of this is small and falls largely on domestic cow beef, which is used for the same purposes. It is instructive to note that although imports have risen slightly since 1965, U.S. cow prices have also increased—from $13.40 per hundredweight in 1965 to $16.60 to farmers in 1966 and $16.90 during the first 9 months of 1967. We do not expect imports of this meat, at the levels permitted under the law, to place any appreciable downward pressure on domestic cow prices in the years to come. The demand for manufacturing beef is expanding rapidly. Total cow numbers on farms in the United States have changed little since the mid-1950's and dairy cow numbers—the main domestic source of this kind of beef in the past—have dropped one-third over this period.

We do not believe that these imports are having any appreciable impact on fed beef prices. They rise and fall in relation to the supply of fed cattle marketed in this country. I would expect fed beef prices to continue their upturn this winter as marketings continue to drop off.

Currently, there are many bills pending to amend our meat import law. These bills would impose mandatory and more restrictive annual import quotas on such meats. They would base average annual imports on the years 1958 through 1962, rather than the years 1959 through 1963, as now provided. They would divide annual quotas into quarterly quotas, the unfilled portion of which may not be carried over into the following quarter. If the most restrictive features of the legislation presently before Congress were implemented, it is our estimate that the price rise on domestic cutter and canner cows would be less than 2 percent, and on fed cattle, less than 1 percent.

Accordingly, I do not see the need for these changes in legislation. Imports are at moderate levels and are meeting manufacturing beef needs without disturbing prices. The present law will keep them at moderate levels. The equal quarterly distribution of these mandatory quotas would tend to disrupt trade patterns unnecessarily without really helping domestic prices.

The import controls we have now seem fully adequate to their task. They have been accepted by our suppliers—although reluctantly. I emphasize—reluctantly. Other countries do not care to see their exports cut back. But they did recognize—and do—the special situation facing us.

Mr. Chairman, earlier I said that, before we used controls, we should be sure there is a clear and present need for them and that their dollars and cents costs in loss of exports are not out of proportion to their benefit to some of our producers. In the case of quota legislation for dairy products and meat, I do not see a present need. The situation is now under control, and the cost of more restrictive controls on these products, in my judgment, would be far greater than we should pay. Farmers producing for export would be hurt and dairy and beef producers will not really benefit.

Where imports of other agricultural commodities may be concerned, we must apply the same down-to-earth, pragmatic tests—are the restrictions in the best interest of the American farmer and the United States? We should not hesitate to decide against restrictions if the answer is clearly that they are not.

Mr. Chairman, might I call to your attention and that of the Committee that there are here in the room or in the hallway representatives from five or six major national farm commodity groups who collectively export about $5 billion worth of agricultural commodities every year. They do not necessarily subscribe to every statement I have made here, but they are here because they stand in opposition to the protectionism that is implicit in the legislation before this committee.

They include—and if they are here, they have indicated their willingness to answer questions if the committee wishes—Herschel New-son of the National Grange, John Palmer of Tobacco Associates, Glen Pogeler of the Soybean Council of America—no, Jake Hartz of the American Soybean Association, Ken Naden of the National Council of Farmer Cooperatives, Joseph Parker of the Institute of American Poultry Industries, Glen Hofer of the National Association of Wheat Growers, and L. C. Carter of the Arkansas Rice Growers, all of whom will express their concern and deep interest in maintaining our agricultural export program.

The CHAIRMAN. I would like those gentlemen to stand so we might recognize them. We are happy to have them here representing the groups.

Mr. Trowbridge?

STATEMENT OF HON. ALEXANDER B. TROWBRIDGE, SECRETARY OF COMMERCE

Secretary TROWBRIDGE. Mr. Chairman and gentlemen of the committee, I join with my colleagues in appreciating this opportunity to discuss foreign trade policy in general and the bills before this committee. It was just 5 years ago last Wednesday that the Trade Expansion Act of 1962 became law. This country then embarked on a major international trade negotiation which culminated in the Kennedy round agreement signed in Geneva last June 30. These agreements clearly represent the free world's most successful effort to reduce the barriers which impede the exchange of goods between people. Our national interest, in terms of the extra jobs created by our foreign trade as well as positive contributions to our balance of payments, will be well served by these agreements.

Now, 3½ months after the Kennedy round, we have before us a number of bills which are so all encompassing that they bring into question the entire direction of the foreign trade policy which this Nation has followed for more than 30 years.

In my considered opinion, our trading relations with the rest of the world would undergo a serious setback if these proposed measures were approved. Certainly enactment of these bills, which provide restrictions on a wholesale basis, will provoke very serious countermoves against our exports. These countermoves would come at a time when we will be trying to eliminate the many nontariff barriers to our exports, and when so many American businesses are cooperating with their Government in extensive programs to promote exports and to resolve our balance-of-payments problem in a constructive fashion.

To be sure, import quotas—as opposed to embargoes or high tariffs—do preserve some portion of the domestic market for foreign goods. However, no one is naive enough to think that this difference will avoid retaliatory measures by other countries against our exports. Moreover, quota protection can do harm to our domestic economy and consumers in that local industries become isolated from technological changes abroad and artificial price and market conditions are created. It may be, of course, that unusual local circumstances can make a good case for some form of protection in selected instances.

However, the issue cannot be viewed only in the context of imports. It is important to remember that our exports become imports when they reach foreign shores. Since we must buy if we are to sell to the rest of the world, it is clear that we should impose restrictions on imports only in the exceptional cases. When we handle these problems in a fair and objective manner, we are able, in the vast majority of cases, to renegotiate our international obligations and avoid retaliation against our exports. We can do this because all countries confront such difficulties and accordingly have agreed to provisions in the GATT for handling these situations through the negotiating process.

The Congress has generally agreed with this approach and over the years it has tried to develop a fair set of criteria for use by the Tariff Commission in its investigations of injury due to imports. The present criteria may not necessarily be the best that can be developed, but I think it is a completely sound concept that tariff or other forms of relief from imports should be provided only after an objective, thorough, factual analysis and investigation. Only one of the broad industry groups now proposed for import relief has taken the opportunity provided by law to put its case before the Tariff Commission. In that instance, the lead and zinc industry obtained import quota relief which was not terminated until 1965 when the President determined, after a long and comprehensive review, that the situation in the industry had improved to the point where the extra relief was no longer essential. Even in that case, the President went to considerable length in his 1965 statement to request the Tariff Commission to streamline its procedures and redouble its efforts to expedite proceedings in any case where delay might bar effective relief. Obviously in this statement the President was expressing his wish that prompt attention be given to any further application for relief by this or any other industry.

Generally, however, what has happened is that over the last few years industries desiring restrictions on imports have claimed that they cannot obtain the relief they need from the Commission through the legal procedures established by the Congress. Instead of asking Congress to change these procedures, which one would expect in the circumstances, the appeal is for protection through legislative action.

With respect to the individual bills, the Secretary of Agriculture has commented on meat and dairy products and the Secretary of the Interior has commented on bills to set import quotas on petroleum as well as lead and zinc.

I would like to make several points with regard to textiles.

It is well known that this administration has long been committed to the maintenance of strong domestic textile and apparel industries. We have consistently recognized the major contribution made by these industries to the American economy. The seven-point textile program of May 1961 represented concrete action to back up this commitment. Implementation of that program has included enactment of one-price cotton legislation, establishment of revised depreciation allowances on machinery, expanded research for the development of new products, and the negotiation and implementation of the Geneva long-term cotton textile arrangements (LTA). All of these have played an important role in substantially improving the conditions of the textile and apparel industries over those which prevailed during the late 1950's and early 1960's. The textile industry, including leaders of the labor movement, is the first to recognize the value of this program.

We, of course, have continued to pay close attention to the textile import situation. We have increased our efforts to apply the provisions of the LTA and at present approximately 85 percent of our cotton textile imports are controlled pursuant to the LTA.

During the past year we completed extensive negotiations which led to the extension of the LTA from September 30, 1967, to September 30, 1970. In my view, Mr. Chairman, despite occasional difficulties in its enforcement, the LTA has been effective and is a program with which all concerned have learned to live reasonably well.

As this committee may be aware, we have on several occasions attempted to negotiate international agreements on wool textiles. These attempts have not been successful. In the field of manmade fiber textiles substantial increases in imports have developed during the past several years along with the shift in the domestic market to an increasing use of manmade fiber textiles and blends.

The concern of many in the textile and apparel industries, and their representatives in the Congress, about the increase in overall U.S. textile imports is well known to us. Our textile advisory committees meet frequently to advise the Government of the views of industry, labor, and the trade generally on existing market and industry conditions. Recognizing the widespread concern in the industry and the Congress about conditions in the textile industry and the need for having as much information as can be obtained promptly from all the resources available to him, the President on October 4 asked the Tariff Commission to report on "* * * the economic condition of the U.S. textile and apparel industries, especially the present and prospective impact of imports upon those industries * * *." Chairman Mills of the House Ways and Means Committee joined in that request. Public hearings have been called by the Commission, and its report is to be furnished to the President by January 15, 1968. I trust that it will be a valuable report, and as the President said, "will permit all of us who are deeply interested in the welfare of the textile and apparel industries to take a course of action which will be both in their interest and the national interest." In light of this request, Mr. Chairman, I believe that further discussion of the textile situation can most profitably be deferred until the Commission's report, plus other information that will be developed within the administration during this period, has been made available to the President for review and analysis.

The committee also has before it a bill to regulate the importation of pig iron and steel mill products at a level of 9.6 percent of recent domestic consumption. The steel industry has an impressive record of self-help in adjusting to the increased volume of imports and at the same time growing steadily within the economic expansion of the last 5 years. In 1966 production was at an alltime high; shipments were close to the record levels of 1965; employment in 1965 and 1966 was higher than in any year since 1957; assets of the industry were at an alltime high in 1966; so was revenue; and net income in 1965 and 1966 matched the peak level of 1957 though the ratio of net income to sales was down a point or so. Capital expenditures in 1966 were $2 billion, and are projected at around $2.4 billion this year, mostly for more efficient and competitive production and distribution facilities. Dividends last year approached half a billion dollars, which exceeded the 3 previous years but were somewhat below 1962 and previous years.

Imports, at 10.9 percent of domestic consumption in 1966, were also at an alltime high, while exports declined back to the level of 1959, in part because of a decline in shipments financed by AID. The year 1959, Mr. Chairman, was the year of the long steel strike and is, I think, a key year. Many users of steel began importing foreign products for the first thime, and international competition has increased each year since then. Also in that year, as well as in 1958, our exports dropped sharply and have not recovered since. What we have had over the last few years is a heavy demand for steel accompanied by more diverse purchasing by some large users who, fearing a domestic shortage or looking for price advantages, meeting their needs by buying both foreign and domestic steel. Thus we end up with a high ratio of steel imports to consumption which by and of itself is not a sufficient case for import quotas. Though industry shipments and profits have declined in 1967 because of a drop in construction and auto production, steel imports have increased at a far slower pace than during the 1962–66 period. I think it fair to say that the steel industry appears now to have passed through its slack period earlier this year, and, through heavy investments, it certainly is becoming more efficient as it modernizes. On the basis of these facts, I find it difficult at this time to see that there is a need for import restrictions.

In short I believe we should provide relief from imports only in the exceptional cases in which it is demonstrated that such a remedy is necessary. We have existing procedures which are available to accomplish this. As the President said last week, our approach should be to "* * * maintain a fair and just concern for the well-being of those industries and their employees who suffer unusual hardship from imports."

All of the six bills now before this committee, taken together, would provide new or more restrictive quotas on close to $6 billion or about one-third of our dutiable imports. If enacted, we can expect that countermoves will result to the detriment of our most efficient industries, those that are providing the most intense competition abroad. These industries will be the first targets for counteraction by other countries. If we take action affecting some $6 billion of our imports, then we must be prepared to have our trading partners retaliate. But let us realize that once we have taken the first big step, we will have very little to say about which of our exports will be affected. Nor can we estimate in advance what value foreign countries will attach to these restrictions. Here I believe we have the ingredients of a very large trade war.

But even worse, I feel these bills in the aggregate, and those surely to follow if these become law, would be, in fact, a major and highly unfortunate turnabout in U.S. foreign trade policy, which, once made, could probably not be reversed in our generation.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Ambassador Roth?

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

Mr. ROTH. Mr. Chairman and Senators, although the President's negotiation authority under the Trade Expansion Act of 1962 expired on July 1 this year, the rest of that act is still in force. and I hope that its stated purposes remain an expression of the intent of the Congress.

Two of those purposes were stated in the act in precisely the language in which they were approved by this very committee a little over 5 years ago:

> 1. To stimulate the economic growth of the United States amd maintain and enlarge foreign markets for the products of the United States agriculture, industry, mining, and commerce; and,
> 2. To strengthen economic relations with foreign countries through the development of open and nondiscriminatory trading in the free world.

The Trade Expansion Act won the approval of overwhelming majorities of both Houses of Congress. Comprehensive trade negotiations, spontaneously and universally known as the Kennedy round, were carried out under the authority of the act.

Mr. Chairman, may I say the negotiators did not trade a horse for a rabbit. We did, I believe, get a good Yankee deal that will in the future lead to an increase in our exports and to a growth in American jobs.

Under the agreement that resulted, tariff concessions were exchanged covering about $40 billion of world trade. For example, the external tariff of the Common Market was reduced on over $10 billion of its import trade, ˈncluding tariff reductions on 87 percent of its dutiable imports from the United States. The largest share of the duty reductions we obtained from the EEC was in the field of industrial products, but tariffs were reduced on more than a quarter of their dutiable agricultural imports from us. In addition, $82 million of their agricultural imports from us is accounted for by wheat, which was included in a new World Grains Agreement negotiated as part of the Kennedy round and which we will sign this week.

It is, however, just as important to the United States now as it was in 1962 to maintain and widen its access to world markets—particularly as regional trading blocs like the European Economic Community grow in significance.

The big gain for American producers, as they confront the evolving patterns of world trade, is that much lower tariffs against our exports in Europe, in Canada, and in Japan will come into effect in stages over the next 4 years—unless we put our trade policy into reverse and throw them away.

I do not think it is possible to exaggerate the gravity of the decisions that this committee has been asked to make by the authors of the quota bills that are the subject of these hearings. If they were to be enacted not only would these most recent gains from the trade agreement program be sacrificed but all the progress made by the United States since 1934 toward establishing fair and orderly international trade relations would be put in serious jeopardy.

These bills, if enacted, would run contrary to international commitments undertaken under authority expressly conferred by the Congress. U.S. imports of the products covered by bills to impose new quotas or make existing ones more restrictive amounted last year to over $6 billion. If the general quota bill that has been described in the press were to be added to these specific product bills, the figure would not be $6 billion but more than $12 billion, or nearly 50 percent of our total imports in 1966.

Countries that take by far the largest part of our exports have already put the U.S. Government on notice—as Secretary Rusk indicated—that they are watching closely the fate of these bills. We can be sure they are already studying the measures they could take in retaliation. The prime candidates for such retaliation would almost certainly be those in which American exports are now contributing heavily to our export earnings or have the greatest potential for growth: chemicals, farm equipment, industrial machinery, wheat, feed grains, soybeans, fruits and vegetables, electronic equipment, and tobacco, to take a few examples. The effect on our balance of payments would be incalculable.

But the sacrifice of the hard-won gains of the Kennedy round and the likely disruption of a large portion of our export trade are only two of the costs we will have to pay for the passage of these bills. Another is the direct impact on our domestic economy of the curtailment of imports.

Consumers will be hit both by higher prices and restrictions on their freedom of choice. This will be a heavy burden upon households and upon all Americans whose incomes are low and fixed—notably our senior citizens. Many of the small businesses they patronize will suffer as well.

Producers will find the costs of the supplies they need going up—and their ability to compete in export markets will necessarily be impaired.

Farmers will suffer from a cost-price squeeze. The costs of the things they buy will increase at the very moment their exports are drastically reduced by the retaliation our own quotas are certain to provoke.

Perhaps even more frightening is the almost inevitable effect on the position of the United States as the principal advocate and defender of the free enterprise system. Quantitative restrictions are the negation of the market mechanism. They are the antithesis of the concepts on which our free enterprise system is based.

The bills before this committee represent a drastic reversal of the trade policy the United States has pursued and an undermining of the foundation upon which the whole structure of our international commercial relations is built. I do not see how these relations or the international organizations we have nurtured to support them, could survive such a reversal.

One might be able to understand, if not to sympathize with, the rationale of these bills if the United States were in a depression, or even a recession. The contrary is true. Our gross national product, in constant dollars, is up 27 percent since 1962. Corporate profits, after taxes, have gone up 38 percent in the same period. Unemployment has gone down from 5.5 to 4.1 percent.

I do not say, Mr. Chairman, that particular firms or groups of workers, or possibly even specific industries, are not experiencing difficulty because of imports. I do say that if they are being adversely affected by imports, they should seek relief through the procedures provided under existing legislation, rather than attempting to bypass them. These procedures—with one exception—are available and can provide relief which is meaningful as well as consistent with our liberal trade policy. These include the escape-clause provisions of the Trade Expansion Act which have not yet been thoroughly tested, as well as the Antidumping Act, the countervailing duty provision, the unfair trade practices statute, and section 22 of the Agricultural

Adjustment Act. The one exception is the adjustment assistance provision of the Trade Expansion Act which we hope will be liberalized by the Congress in the administration's trade bill.

Let me briefly sum up my conclusions concerning the bills that are under consideration:

1. They would undoubtedly bring heavy retaliation against U.S. exports that are essential to the health of our American industry, labor and agriculture, and to our balance of payments.

2. They would place additional burdens on U.S. consumers and producers, when the economy is already facing serious inflationary pressures.

3. They would undo many of the benefits obtained in the Kennedy round.

4. They would be a breach of faith with an international agreement concluded only 4 months ago—an agreement that was negotiated largely on U.S. initiative, with the authority, support, and encouragement of the Congress.

5. They would impair, for a long time to come, the ability of the United States to bring other countries to the negotiating table when we need to protect our trading interests, particularly to come to grips with nontariff barriers to our exports.

6. They could very well cancel out all the progress we have made since the war in persuading many countries to rely on free enterprise and free competition as the strongest stimulus to world trade and to their own economic growth.

The basic question here is what kind of an economy we want—one cosseted by quotas and immunized from competition, or one vigorous enough to compete effectively in the world market.

To give quotas to one industry, experience shows, merely sparks demands for them by others. The national interest is much more than the mere totality of sectional interests. The national interest, as Presidents and Congresses of both parties have determined it for the past third of a century, lies in the expansion of world trade, not its contraction, and in free competition, not protectionism.

Thank you, Mr. Chairman.

Secretary Rusk. Mr. Chairman, we appreciate the patience of the committee in hearing what might appear to be a surplus of Cabinet officers.

Two of my colleagues, the Secretary of Treasury and the Secretary of Labor, were very regretful that they could not be here today. Secretary Fowler has sent in a statement, and we would submit it to the committee for the record if the committee wishes to have it.

The Chairman. We are always pleased to have a communication from the Secretary of the Treasury, Mr. Henry Fowler. It will be inserted in the record at this point, and I will read it as soon as I have an opportunity.

(The statement from Secretary Fowler follows:)

The Secretary of the Treasury,
Washington, D.C., October 18, 1967.

Hon. Russell B. Long,
Chairman, Senate Finance Committee,
Washington, D.C.

Dear Mr. Chairman: I am writing to you to express my judgment that the recently proposed import quota bills, if enacted, would worsen our balance-of-payments problem, already aggravated by the Vietnam conflict.

During the post-war period, our substantial trade surplus has been the major sustaining element in our balance-of-payments picture. This trade surplus has provided the financial means for carrying on necessary military, economic, and diplomatic activities throughout the world with a convertible dollar of constant gold value. Because of this trade surplus, we have not had to resort to the restrictions on personal freedom of travel abroad or on direct investment abroad which so many countries have used. I shudder to contemplate what would have happened to our balance-of-payments position and our gold reserves in the absence of this strong plus factor in our payments situation.

A country with a large trade surplus is uniquely vulnerable to the adverse effects of a quota war and that is what wide use of import quotas would create. To incite such a war would be a fool's game since the U.S. would be bound to end up as a loser. The broad use of import quotas may, at times, make temporary sense for inward-looking trade deficit countries; but it has no place in thepolicy of a major trade surplus country such as ours.

Import quotas would probably reverse the continued recovery of our trade balance upon which the solution to our balance-of-payments problem so heavily depends. They would do this by causing a loss of U.S. exports that would almost certainly exceed any reduction in U.S. imports that they would produce.

There are three reasons for anticipating a substantial adverse effect on our exports as a result of widespread imposition of import quotas. These may be referred to as the "feedback" effect, the "retaliation" effect and the "competitive loss" effect. Let me describe each of these, in turn.

Feedback Effect. When we import, we put dollars in the hands of foreign countries which are likely to use the bulk of them directly or indirectly either to purchase U.S. goods, U.S. services or U.S. long-term investments.

Experience suggests that for each $1 billion reduction in our merchandise imports, we will lose somewhat over half a billion dollars of exports. Other items in our balance-of-payments accounts will also change; but I am speaking of the observable statistical relationship between our merchandise imports and exports over a period of years.

If foreigners earn less from us because of quota barriers which we erect against their goods, we can surely anticipate that their purchases of our goods will decline *even in the absence of retaliatory action* against our goods. But there will certainly be such action—and this leads me to the second adverse effect that the proposed quotas would have on our exports.

Retaliation Effect. President Kennedy in his Balance of Payments Message to the House of Representatives on February 6, 1961, warned:

"A return to protectionism is not a solution. Such a course would provoke retaliation; and the balance of trade, which is now substantially in our favor, could be turned against us with disastrous effects to the dollar."

President Johnson in his Balance of Payments Report to the Congress on February 10, 1965, emphasized our obligation to avoid "beggar thy neighbor" restrictions on trade.

If we start down the quota path, there will be retaliatory action abroad and our trade surplus position will suffer.

The six Common Market countries have already given a veiled warning that they would retaliate. I do not think they are bluffing. The Commission which is the executive arm of the European Community is reported to have already undertaken a study of possible retaliatory action. A Commission recommendation along this line to the Community's Council of Ministers would certainly receive very careful consideration.

Other countries would follow suit. I understand the Australian Government has estimated that the proposed quotas would apply to 60% of Australia's exports to us. I hardly think that country, or other countries in comparable situations, would remain passive in the face of U.S. quota limitations affecting so large a portion of exports to us.

Let me add that foreign countries have a variety of devices with which they could retaliate against the proposed U.S. quotas. These include not only counter-quotas but also administrative devices such as licensing requirements which are not so obvious but which could be quite effective in reducing their imports from the U.S. There is no doubt in my mind that these instruments would be brought into play within a short time after action by the U.S. along the lines of the proposed legislation.

In addition, then to the *adverse "feedback" effect* on our exports resulting from a quota-induced reduction in our imports, there would be a decline in our exports due to *foreign retaliation*. Loss of U.S. exports due to these two reasons alone might well exceed any reduction in our imports resulting from the proposed quotas. But the above losses would be supplemented due to a third adverse effect resulting from imposition of import quotas.

Competitive Loss Effect. Imposition of the proposed quotas, by curtailing competition from foreigners, would encourage higher domestic prices for various materials and components which enter our export products. As a result, our exports would tend to be less competitive in foreign markets, and we could expect foreigners to buy less of them for this reason.

In August I testified before the House Ways and Means Committee on the President's fiscal program. In that testimony I emphasized the importance of keeping our exports competitive over the longer run and pointed out that the requested tax increase would contribute to this end. Maintaining an open economy—that is, one free from widespread quotas and other barriers to trade—also contributes to this end. We cannot hope to produce in a highly protected domestic market and sell successfully in highly competitive international markets.

I have described above *three adverse effects* that the proposed import quotas would have on U.S. exports. I cannot predict exactly what their *combined effect* would mean in terms of dollar loss of U.S. exports for each dollar reduction in U.S. imports brought about by the proposed quotas. But my judgment is that the ratio would be considerably greater than one for one—that is, more than one dollar's loss of exports for every dollar reduction of imports. In summary, the proposed quotas would hurt our trade balance and, therefore, our balance of payments.

The approach under our balance-of-payments program has been in exactly the opposite direction—namely, to achieve an expansion of exports that would outstrip the rise in our imports. In short, we are striving for a balance-of-payments solution in the context of a healthy, expanding international economy such as has been developing in the last decade or two. The proposed legislation, by contrast, would foster a retreat to protected markets which could easily become cumulative. Protectionism is like inflation. There is never enough of it for the firm whose costs are seriously out of line.

Any adverse effects of increased imports on particular firms or individuals are not remedied from the national point of view by transferring the disruption to firms and workers engaged in exporting. Adverse effects, in any event, are likely to be temporary in a period of healthy domestic growth and near capacity utilization of domestic resources. We are not facing a period of mass unemployment and low rates of plant capacity utilization such as featured the 1930's. The Administration's policy has been directed more and more firmly towards the maintenance of a full employment, non-inflationary economy in which international trade in both directions plays an important role.

Enactment of the proposed bills would bring to an end an era of progressive liberalization in international trade—an era which has witnessed the highest growth rate that the industrialized area of the world has ever experienced.

The U.S. has played a leading role in this liberalization process. In addition to completing successfully the Kennedy Round of trade negotiations, the U.S. and other Free World countries have recently agreed on a facility for supplementing existing international reserve assets, as needed, in order that a shortage of such reserves will not impede the continued growth of world trade.

Our best interests at home and abroad would suffer if the U.S. were suddenly to forsake its role in the expanding Free World economy for the illusory benefits of an import quota system.

Sincerely yours,

HENRY H. FOWLER.

The CHAIRMAN. I would suggest that Secretary Rusk act as the chairman of the panel for the moment, and either answer the question or designate whichever witnesses he thinks most appropriate to answer it.

I am going to ask each Senator to limit himself to 5 minutes on the first round of questions, and we will discuss our procedure thereafter.

I think that will take up the remainder of this morning's testimony.

Mr. Secretary, statements by administration witnesses this morning all assumed that every quota bill before us will be passed as introduced.

It is, of course, logical to assume that the administration opposition would not be nearly so fervent unless we were dealing with a theory that the legislative branch is not as competent to act in trade matters as the executive branch.

There are a number of executive quotas in effect today. The Secretary of Agriculture administers at least four—on sugar, on dairy products, on meat, and on raw cotton. I have a pamphlet here of a great number of others that he administers.

The Secretary of Commerce has a quota on textiles. The Office of Emergency Planning and the Secretary of the Interior administer one on petroleum. In addition, there are certain tariff quotas now in our statutes.

I take it that these quotas, especially those imposed administratively, indicate Executive awareness that there, is a point where imports are so severely harmful to domestic producers that it would be unconscionable not to provide some relief. I take it that there is no objection to these quotas that are administratively imposed.

Now, it would seem to this Senator that to some extent it is merely a matter of degree as to what you believe is good for the Nation when it is done administratively, and in some instances tend to view the situation as bad if we enact similar quotas by law.

Assuming we in the Congress, who are elected to these positions, are as competent to judge the Nation's interest as those in the executive branch appointed by the President, then is there any reason why we who make laws should not exercise our judgment by passing a law after hearing the arguments for both sides, and then doing so, cannot act in the national interests every bit as effectively as you?

Secretary RUSK. Well, Senator, we in no sense challenge the great constitutional responsibility of the Congress in this field.

I think there is a difference between quotas that are prescribed by law and the use of machinery that can find flexible answers to cope with particular situations.

I must say that, in dealing with the quotas that we have, to which you referred, I think there is a general understanding in other parts of the world that section 22, for example, of the Agricultural Act, is necessary in connection with support of our own domestic agricultural policy here in this country, and the use of that section is not likely to set off a chain of retaliation of the sort that we have been considering.

Further, if I may refer to some of my own personal experience with regard to the sugar quotas, there, from an international point of view, we are in effect conferring a benefit by special prices on a number of other countries. But the political action taken by other countries who are competing with each other creates each year a most difficult foreign policy issue for us, and when one thinks about generalizing that or extending it to a large number of other items, we are projected into what could almost be called a state trading system in which the political burdens we would bear would be very heavy indeed.

I do believe, sir, that the Congress has provided flexible machinery—Mr. Trowbridge referred to some of them—in which we can find answers within the general policy of the Congress and find ways and means to deal with the specific problems that on the merits are demonstrated as far as particular industries are concerned.

Now, one of the major achievements in this field was the long-term agreement on cotton textiles. But I hope the committee would not underestimate the enormous difficulty we had in negotiating that agreement at the time that it was negotiated, and in getting it extended.

I just think that if we are not careful we go into a jungle of intergovernmental action, and what concerns me most specifically, Mr. Chairman, is that, also in some of these bills that are before you, we are getting into fields where there is a general understanding that the privilege of retaliation is a part of the system. We will be furnishing the committee, and perhaps you have a great deal of that yourself, some typical examples of the exports that would be subject to retaliation.

So I would—some of my other colle gues may wish to comment on this—but I would say there is a difference between legislative guidance to provide flexible machinery for dealing with specific problems and the establishment of quotas by legislative action which could cause us great problems.

The CHAIRMAN. I would like to say that as far as the chairman of this committee is concerned, I have no quarrel in depth with you or any of your colleagues in the ways in which you are administering the laws passed by the Congress.

Secretary Rusk. Thank you, Mr. Chairman.

Mr. CHAIRMAN. I would stress those words, "in depth." I might differ with you on individual decisions, but in depth I think you are doing a very fine job on it, and so are your colleagues here.

Secretary RUSK. Thank you, Mr. Chairman.

The CHAIRMAN. The questions that this Senator asked, and I think some of the rest of us would ask, are whether these laws we have are adequate to serve the national interests, and to do equity and justice to the American producers.

Senator Smathers.

Senator SMATHERS. Mr. Secretary, I want to ask you a couple of broad-range questions to get some obvious other answers and try to see if we can make it understandable to the general public.

Do we now have a favorable trade balance and, if so, how much, how many dollars in our favor is it?

Secretary RUSK. It is approximately $3.9 billion last year, Senator. It looks as though this year might be $4.6 billion.

Senator SMATHERS. So it would be fair to say that, under present conditions, having a favorable trade balance, that the present system which we have is working rather well insofar as the Nation is concerned?

Secretary RUSK. I think, sir, so far as the economy as a whole is concerned, we are demonstrating that we have a lively capability in world markets. I will be glad to submit to the committee some of the components of the stake which American production has in export markets. In many industries, this is a crucial part of their total effort.

Senator SMATHERS. I think it would be helpful if you would do that.

(The committee subsequently received the following information:)

INDUSTRIES HAVING SUBSTANTIAL EXPORTS

[1964—Most recent year for which comparable statistics are presently available]

SIC codes	Industry	Domestic[1] production (millions)	Exports[1] (millions)	Percent exports to output[1]	Domestic employment[2]	Workers dependent on export markets (estimated)
11	Anthracite coal	$148.6	$22.1	15	[3] 11,200	1,600
12	Bituminous coal	2,165.6	441.2	20	136,000	26,200
2041	Flour and other grain mill products	1,944.8	208.0	10	32,900	3,200
2091, 2, 2	Vegetable oil mill products	2,047.6	317.9	16	[3] 19,100	3,000
21	Tobacco manufactures	3,217.3	131.6	4	89,100	3,800
2812	Alkalies and chlorine products	567.6	40.8	7	23,800	1,600
2631	Paperboard mill products	2,328.3	131.4	6	66,600	3,900
2818	Industrial organic chemicals (not elsewhere classified).	4,334.0	449.1	10	112,100	11,200
2819	Industrial inorganic chemicals	3,291.1	323.1	10	95,200	9,500
2821	Plastics materials, synthetic resins, and nonvulcanized elastomers	3,001.4	381.2	11	81,200	8,900
2822	Synthetic rubber	919.9	179.2	19	[3] 13,400	2,500
2823, 4	Manmade fibers	2,278.1	179.6	7	88,100	6,100
2831, 3, 4	Biological products, medicinals, and pharmaceuticals	3,777.2	285.1	8	[3] 112,300	8,900
2861	Gum and wood chemicals	208.8	42.1	20	[3] 7,000	1,400
2871, 2	Fertilizers	1,328.7	80.8	6	37,700	2,200
3421, 3, 5	Cutlery, hand and edge tools	897.8	82.8	9	55,700	5,000
3443	Fabricated platework	1,758.6	111.8	6	89,600	5,300
3511	Steam engines, turbines, and parts	605.4	136.3	23	32,600	7,300
3519	Internal combustion engines (not elsewhere classified).	1,564.3	257.3	16	54,400	8,700
3522	Farm machinery and equipment	2,836.2	413.1	15	126,500	18,900
3531, 2	Construction and mining machinery and equipment.	3,161.9	1,112.3	35	128,500	44,900
3533	Oilfield machinery and equipment	642.8	150.5	23	34,500	7,900
3541	Metal cutting machine tools	1,113.2	204.8	18	67,500	12,100
3535, 6	Conveyors, hoists, and industrial cranes	684.8	58.5	9	32,500	2,900
3552	Textile machinery and parts	558.8	140.3	25	39,600	9,900
3542, 8	Miscellaneous metalworking machinery	1,301.1	272.5	21	68,500	14,300
3554	Paper industries machinery	378.0	64.4	17	[3] 19,600	3,300
3551	Food products machinery	580.5	108.3	19	37,100	7,000
3555	Printing machinery and parts	430.8	82.9	19	25,600	4,800
3561	Pumps and compressors	1,359.9	179.9	13	66,900	8,600
3571, 6, 9	Computing machines and office machines (not elsewhere classified), scales and balances except laboratory	2,408.5	433.1	18	[3] 155,300	27,900
3562	Ball and roller bearings	1,014.0	81.3	8	55,300	4,400
2623, 9	Welding apparatus, electrical industrial goods (not elsewhere classified)	516.5	50.3	10	[3] 25,900	2,500
3612	Power and distribution transformers	778.1	33.6	4	42,900	17,100
3811, 21, 22	Scientific and mechanical measuring instruments	2,145.0	328.7	15	165,900	24,800
3861	Photographic equipment and supplies	1,902.3	182.2	10	75,900	7,500
3613	Switchgear and switchboard apparatus	1,082.6	59.4	5	66,000	3,300
3621	Motors and generators	1,615.1	103.0	6	96,400	5,700
3622	Industrial controls	761.9	30.8	4	48,000	1,900
371	Motor vehicles and equipment	36,837.1	1,663.5	5	755,400	37,700

[1] U.S. Bureau of the Census, "U.S. Commodity Exports and Imports as Related to Output, 1964 and 1963," U.S. Government Printing Office, Washington, D.C., 1966.

[2] U.S. Department of Labor, "Employment and Earnings Statistics for the United States, 1909–65," Bulletin No. 1312-3, U.S. Government Printing Office, Washington, D.C.; unpublished data provided by the Bureau of Labor Statistics.

[3] Unpublished data provided by the Bureau of Labor Statistics.

Senator SMATHERS. What is our situation with respect to our balance-of-payments deficits? How big is it?

Secretary RUSK. The figure for last year was about $1.4 billion, and it looks at the moment as an annual rate of $2 billion at the present time.

Senator SMATHERS. If we adopted these measures that have been proposed, which as you say would result in retaliation, and I am sure that is correct, what would be the situation then with respect to our balance-of-payments deficit? Would it be worse or better?

Secretary RUSK. I think, sir, that we would get ourselves into very serious difficulties with our balance of payments, because our balance-of-payments deficit in part stems from obligations which we cannot avoid, our security commitments abroad and, indeed, some share of the total of what is called foreign assistance in the world.

Now, if we start a downward spiral in the trade field, then we inevitably shrink our ability to earn on the merchandise account the surplus that will keep that balance-of-payments deficit in reasonable bounds.

Senator SMATHERS. So it is reasonable to assume, if we adopted these bills, not only would our balance-of-payments deficit not improve but it is reasonable to assume it would be worsened.

Secretary RUSK. I think, sir, these bills, plus the action taken by other governments, would have that result.

Senator SMATHERS. Mr. Secretary, how many jobs are directly related to our foreign trade—directly related?

Secretary TROWBRIDGE. Mr. Chairman, I would like to say we use a rule of thumb which, if I am not mistaken, is about 100,000 jobs per each billion dollars' worth of our exports. So this would come to close to 3 million jobs at the current level of our exports.

Senator SMATHERS. All right.

If we pass these bills, it is obvious that we would have less foreign trade, so is it logical to conclude that there would be thereby more unemployment in the United States, that these people would lose jobs?

Secretary RUSK. I think, sir, there is no question there would be a very serious effect on employment in this country, with a spiraling downward of production, of exports, and indeed, of jobs that are taken up under imports and processing of imports. So, through the economy, I think there would be shrinking employment.

Senator SMATHERS. The Secretary of Agriculture indicated today that much of the farmer's income, a good proportion of his income, results from export trade. If we adopted these bills what, in your judgment, specifically would happen to the farmer, Secretary Freeman?

Secretary FREEMAN. Well, there would be a sharp drop-off in net farm income, without any question. Exports account for about 17 cents out of every farmer's net income, and that net income was $16.5 billion last year.

I might add also, Senator Smathers, that in the employment figures to which you are referring, there would be included 538,000 jobs that are tied directly to agricultural exports.

Senator SMATHERS. So it is reasonable to conclude, is it not, that the farmers as a group would actually suffer rather drastically if we passed these limitations?

Secretary FREEMAN. No question about it. I think, as I tried to emphasize, that the farmer has a greater stake in expanding trade than perhaps any segment of our economy.

Senator SMATHERS. Now, Mr. Secretary Rusk, would it not be reasonable to conclude if we passed these bills, therefore, and conditions of unemployment might result in the manufacturing business, the farmers are not better off, would it not be reasonable to conclude that because we are not importing competitively certain items, that the price of most consumer goods could rise?

Secretary RUSK. I think, sir, the consumer has a tremendous interest in this issue, not only with respect to prices, which would be very real, but also with respect to selection, choice, taste, and questions of that sort.

Senator SMATHERS. So while it would be that we might be helping in some instances those people who are directly related and directly working with a particular industry, the fact of the matter is, is it not, that if these bills were passed not only would we worsen our balance-of-payments position, not only would we lose the balance of trade advantage which we have, not only would we increase unemployment, but in addition to that we would increase the cost of living for all of our citizens?

Secretary RUSK. That is our deep view of the matter, sir.

Senator SMATHERS. Now, has it been your observation, since you have been around Washington—I do not mean to put you on the spot with this—but for years, has it been your observation that the Congress acts rapidly in matters of specific industries or specific questions when they arise? Well, anyway, do you see what I am driving at? Has it been your observation——[Laughter.]

Secretary RUSK. Well, Senator, I think I see what you are driving at. [Laughter.]

We see from time to time, if I may put it in very friendly terms, what might be called a little guerrilla war by particular interests or another.

But let me say this, sir, that when you look back over the last several years, and when the Congress is seized with the fact that as a corporate body it has the responsibility, for all of its people, the exporters, the importers, the farmers, the consumers, and everybody else, that, on the whole, the Congress comes out pretty well.

Senator SMATHERS. I agree with that. I am very much for the Congress—but has it not been your observation that the Congress can act well and does act well with respect to basic broad programs, but when it comes to taking over administrative duties and legislating specifically in certain types of industries and things of that character, such as the railroad industry or the airlines, or whatever it is, we have seen fit to establish agencies to do that for us, and I think wisely so; is it not your observation that probably the Congress would not be in a position to act as quickly with respect to some quotas as such, as we are talking about today, if conditions should change in the foreign country or here with the rapidity which is needed?

Secretary RUSK. I think that is one of the very important factors here, because flexibility requires that there be a capability to act at a pace that is faster than the Legislative Calendar of the Congress.

Senator SMATHERS. Mr. Chairman, my 5 minutes are up, so I yield temporarily.

The CHAIRMAN. Senator Williams.

Senator WILLIAMS. Mr. Chairman, I will have some questions. But I recognize the hour is late and some of our members have to leave, so I am going to yield to the Senator from Utah first.

Senator BENNETT. Mr. Chairman, this has been a most enlightening morning for me. We have heard every old bogeyman about the effects of protectionism raised that has ever been raised in the history of the country. They have all been waved before us again, all the effects on the total economy and all the effects even on the poor people who, I guess, are going to be injured if this bill is attached to the social security bill, or whether the bill is passed or not.

It has been interesting to me that the Secretary and Mr. Roth have raised these bogeymen, and then the Secretary of Agriculture, who has attempted to help the dairy industry by putting restrictions on the thing that we are asking, the type of consideration we are asking, for other industries, has done a beautiful job of saying we can do it without generating all the retaliation that the Secretary and Mr. Roth have raised for us.

He made it clear to us that it is a very difficult job to negotiate these problems. It is difficult, and it is painful. But the Secretary of Agriculture did it.

I would like to address my first question to the Secretary of Agriculture. Is it fair to say that under section 22 the farmers in this country have a protection that is not available to the industrialists?

Secretary FREEMAN. No; I think it is not. I think the same protection that the farmers can get under section 22 is accorded to other segments of our economy by the escape clause, countervailing duties and antidumping procedures.

Senator CURTIS. Does not section 22 authorize specifically the curtailment of imports in order to make our own price-support programs effective?

Secretary FREEMAN. That is correct.

Senator BENNETT. Is that available to industry?

Secretary FREEMAN. There are no price-support programs and no comparable examples.

Senator BENNETT. The answer is, "yes," it is not available to industry.

There was one comment in your statement that intrigues me.

Secretary FREEMAN. Thank you for answering the question. [Laughter.]

Senator BENNETT. Do you want to correct my answer?

Secretary FREEMAN. Well, I do not think it is a very meaningful answer, if I may say so, because you are talking about apples and oranges, and not about the same things at all.

Senator BENNETT. Well, my point is, and I think I have established it, that the farmer does have a type of escape in his products if they come under attack, which is not available to the producer of industrial products. It grows out of the difference in the basis of his production, and it grows out of the difference in the law affecting production, but he does have a basis of escape, and you have used it, and you have used it without the kind of retaliation that we have been frightened with here this morning.

Secretary FREEMAN. In the interest of accuracy, might the record show that section 22 applies only to those items where we have price-support programs, that, as a matter of policy set down by the Congress, it operates in the national interest to protect the National Treasury, if you will, and that the products affected run to, oh, roughly, less than 40 percent of farm commodities.

Senator BENNETT. Are our dairy products among those items?

Secretary FREEMAN. Yes.

Senator BENNETT. They are.

I was interested in another comment or combination of rather widely separated comments on essentially the same subject in your statement, and I would like to get it straightened up in my mind.

You said, in effect, that the importation of beef had not substantially damaged the price of beef, and you said that the particular volume of beef that was imported in chief is manufacturing cow beef, and you pointed out proudly that the prices had been rising.

Then at the very end, you said, and I quote, "And in dairy cow numbers the main domestic source of this kind of beef in the past has dropped one-third over this period."

Why did it drop one-third?

Secretary FREEMAN. It dropped one-third because dairy farm income, particularly the price for butterfat, had been far below a level that would permit a continuing of output at the level we enjoyed from the number of animals in the earlier period.

Senator BENNETT. Don't you think the import of, or importation of dairy products had anything to do with the decision of the dairy farmers to cut their herds?

Secretary FREEMAN. I think not; imports had a very, very small impact, because out of the 125 billion pounds of consumption, less than one billion pounds was imported. These amounts are very modest, and I think have almost no effect.

Senator BENNETT. Well, why then did the dairy farmers cut their herds one-third? Did the consumption of milk in the United States go off?

Secretary FREEMAN. Yes. In a number of years—the consumption of milk in the United States this year, for example, is about 5 percent less so far than it was last year.

The dairy industry, like most segments of agriculture, is going through a very basic adjustment which has involved larger units, primarily family farm units.

Senator BENNETT. You mean larger cows?

Secretary FREEMAN. I mean more productive cows. Some of them may be larger, too, but the yield from the average animal today is substantially greater than it was 10 years ago.

Senator BENNETT. Is it as much as one-third greater? In other words it seems to me, and I am not a dairy farmer, that there must be a direct relationship between the importation of dairy products and the reduction of the number of animals by one-third.

Secretary FREEMAN. I would say that that is not true. There is no relationship whatsoever.

Senator BENNETT. Well, this is strange economics to me.

Now, much has been made, particularly by my friend from Florida, of the fact that Congress moves very slowly but the administration can move very quickly.

The newspapers have been suggesting the last little while that the setting of these hearings is forcing the administration to move rather quickly on the preparation of alternative proposals to give relief to these industries.

Can we expect such proposals?

Secretary TROWBRIDGE. I could comment in general on that. I think we have to specify which industries are under consideration.

Senator BENNETT. Let us just say any one of the industries whose representatives will appear before us in the next 2 days.

Secretary TROWBRIDGE. I could comment on, for instance, the textile industry whose concerns on the impact of imports have been particularly strong this year.

I would think that our attention to the problems of that industry has been constant, and has not necessarily sped up in the last few months.

We have determined that a rapid Tariff Commission study should be accomplished. Well, as soon as that study is received, we will put it together with our own information and come up with some recommendations on future policy. But I do not know of any immediate speedup as a result of these hearings.

Senator BENNETT. Perhaps the man to whom——

Secretary RUSK. Senator, Ambassador Roth mentioned one example of one point under consideration, and that is the adjustment provision of the Trade Expansion Act. Perhaps he might want to comment on your question further.

Mr. ROTH. Mr. Senator, I think there was some misstatement of what was said in the newspapers. The administration is not going to come in with a change in the escape clause procedures, for instance, under which an industry that is injured by imports can apply for relief either through quota or tariff increases.

We will come in as a part of a tripartite bill with more liberal criteria for adjustment assistance to groups of workers and individual firms.

Senator BENNETT. In other words, unemployment compensation which leaves the men still without a job because their jobs are now being done by someone overseas.

Just one more comment.

Mr. ROTH. The point——

Senator BENNETT. The gavel has gone down on me. Unfortunately, the Secretary of the Treasury is not here, because what I am reading is that you are coming up with special tax benefits or proposals for special tax benefits for these industries.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Anderson.

Mr. ROTH. Mr. Chairman, if I could just say apropos of tax benefits in adjustment assistance to firms, there are tax benefits presently in the law.

Senator ANDERSON. Senator Hartke has to leave and I will pass to him.

The CHAIRMAN. Senator Hartke.

Senator HARTKE. Mr. Secretary, do you think the United States can continue to afford the loss of American jobs as an instrument of our foreign policy?

Secretary RUSK. I think the great trend has been the other way, that we are gaining jobs and increasing employment by the increase in our exports and the more lively participation of the United States in two-way trade at a rapidly increasing rate.

Senator HARTKE. Would you say that is true in the question of steel?

Secretary RUSK. Well, the steel——

Secretary TROWBRIDGE. I might comment, on that Mr. Chairman. The industry, the steel industry, employment in totals from 1960 to

1966 moved from 572,000 downward then moved back up again to 584,000 in 1965, and 576,000 in 1966.

It is, therefore, at about the same total level of employment, but at considerably increased productivity per worker.

Senator HARTKE. Yes. But the fact is that for every 1 million tons of steel which are shipped, our mills in the United States employ 6,400 wage earners. There are an additional 1,300 jobs which were directly involved in coal and ore mining and in transportation. So, therefore, for every 1 million tons of steel this means employment for 7,700 Americans.

Now, you will not deny this, I am sure, that steel imports have gone, during that same period of time, roughly, from about 1 million tons to 11 million tons, to roughly 10 percent of the total American production; is that right or wrong?

Secretary TROWBRIDGE. The figures for the same period of time, 3,300,000 tons in 1960, 10,750,000 tons in 1966, 11 percent.

Senator HARTKE. We have 11 million offshore tons of steel imported into the United States; is that correct?

Secretary TROWBRIDGE. About 11 million tons, about 11 percent; yes, sir.

Senator HARTKE. And this represents the export of 69,000 American jobs in the basic steel industry alone, and 14,000 jobs in supporting activities, an export of 83,000 jobs in that industry alone; isn't that true?

Secretary TROWBRIDGE. If you use the basic premise, Senator Hartke, that imports always displace American jobs, I suppose your arithmetic is true. But imports also provide many jobs for others connected with the handling of imports. You have to discount that portion.

Senator HARTKE. I saw where the Secretary of State had to go back to 1964 statistical material to find a favorable basis upon which to even make a statement. I am dealing with the latest figures we have.

Secretary RUSK. Senator, I believe I will ask Ambassador Roth to comment additionally on this, too, but we do export steel mill products, which ought to be taken into account.

Senator HARTKE. I understand that.

Secretary RUSK. And we also export very large quantities of materials that have steel in them, machine tools, and all the rest of them, automobiles.

Senator HARTKE. I understand.

Secretary RUSK. So those all mean jobs, too.

Ambassador Roth, would you like to add to what Secretary Trowbridge said?

Senator HARTKE. We export how many automobiles to Japan?

Secretary TROWBRIDGE. About 4,000.

Senator HARTKE. Four thousand.

Who is the biggest exporter of steel to the United States?

Secretary TROWBRIDGE. Japan.

Senator HARTKE. Dollarwise, who has a favorable balance, automobiles, machinery, tools, anything else with Japan—how much? Do you know?

Secretary TROWBRIDGE. We have. In 1967 we will have a trade surplus in total trade with Japan of an estimated $400 million, if I am not mistaken.

Senator HARTKE. Is that on the basis——

Secretary TROWBRIDGE. That is all products.

Senator HARTKE. I understand.

Last year, did we have an unfavorable balance?

Secretary TROWBRIDGE. We had an unfavorable balance of $600 million.

Senator HARTKE. Is the favorable or unfavorable balance—not taking into account projections as of today?

Secretary TROWBRIDGE. Without taking into account projections, our unfavorable balance for the first 8 months of this year is less than half the $450 million deficit for the corresponding period in 1966.

Senator HARTKE. I understand the 6-month balance showed a favorable balance in favor of Japan. These are only projections. Last year was the first time there was a favorable balance of trade in favor of Japan and against the United States; is that correct?

Secretary TROWBRIDGE. No, the first unfavorable balance of trade with Japan arose in 1965.

Secretary RUSK. Senator, it depends on how far you go back. When we first set up the United States-Japanese Cabinet Committee, we had a favorable balance over Japan, and the results were very unfavorable to Japan.

This depends on the circumstances of a favorable growing economy as against ours, and we have an annual meeting to go over these factors. But, perhaps, Ambassador Roth can comment on your question.

Mr. ROTH. Senator, I wanted to give an example of what Secretary Rusk described in terms of imports of products which contain steel. One firm, Caterpillar Tractor, as I understand, buys something under 1 percent of U.S. steel production, which gives work to 8,000 steelworkers.

Of their 45,000 workers in their own factories, however, 15,000 of those workers are dependent upon the export of those products.

Senator HARTKE. The truth of it is, if you take the facts here, that one of the biggest reasons for our even having an export trade balance is we take into account in the first place, foreign aid-tied purchases. Is that not true?

Mr. ROTH. That is right.

Senator HARTKE. How much does that amount to?

Secretary TROWBRIDGE. I think it is a billion and a quarter for aid.

Senator HARTKE. I am not interested in the technical details of amounts, because, as you well know, and as I well know, if you take out the foreign aid, military sales and subsidized agricultural sales, there is not a favorable trade balance for the United States of America.

Secretary RUSK. I think, sir, when you take those out, my understanding is last year it was about $0.6 billion, and before that it had been about 2—$2 billion a year—for about 4 or 5 years, taking out the factor you are talking about.

Senator HARTKE. That is right; $0.6——

Secretary RUSK. That is, if you take out——

Senator HARTKE. The foreign aid-tied sales.

Secretary RUSK. The aid increment; that is right.

Senator HARTKE. The foreign military sales, military equipment sales, and subsidized agricultural sales.

Secretary RUSK. I am not sure about the foreign military equipment sales, because those are——

Senator HARTKE. That is all right. I am not arguing on the facts of it. I am just taking those three factors. In other words, your military equipment sales, your foreign aid-tied sales, and your agricultural subsidy.

Mr. ROTH. You are still in a surplus position.

Senator HARTKE. You are still with an unfavorable balance of trade.

Mr. ROTH. You are still in a surplus position.

Senator HARTKE. How much?

Mr. ROTH. We will get those figures for the record.

(The committee subsequently received the following information:)

U.S. MERCHANDISE—EXPORTS, IMPORTS, AND TRADE BALANCE, 1962-67

[In billions of dollars]

Year	U.S. exports, excluding military grant shipments [1]	U.S. general imports [1]	Merchandise balance (cols. A–B)	Merchandise exports financed by AID and Public Law 480 programs	Excluding military grant shipments and merchandise exports financed by AID and Public Law 480 programs	
					U.S. exports (cols. A–D)	Merchandise balance (cols. E–B)
	(A)	(B)	(C)	(D)	(E)	(F)
1967 (estimated) [2]	31.1	26.4	+4.7	2.9	28.2	+1.8
1966	29.4	25.6	+3.8	2.7	26.7	+1.1
1965	26.7	21.4	+5.3	2.6	24.1	+2.7
1964	25.7	18.7	+7.0	2.8	22.9	+4.2
1963	22.4	17.1	+5.3	2.5	19.9	+2.8
1962	21.0	16.4	+4.6	2.2	18.8	+2.4

[1] Includes U.S. sales and purchases of military equipment.

[2] 1967 estimate is based on actual data for January through August, which have been seasonally adjusted to an annual rate.

Sources: Department of Commerce, Bureau of the Census, FT900E, FT900I; AID, Operations Report; Department of Agriculture, Economic Research Service, Foreign Agricultural Trade of the United States.

Senator HARTKE. I will supply those figures for you, Mr. Roth, and show you you are wrong.

Mr. ROTH. Also, with respect to steel employment, I think your figures included coal workers as well, did they not?

Senator HARTKE. I did not hear you. What? Coal workers?

Mr. ROTH. Yes.

Senator HARTKE. I used coal, transportation, in addition; sure. Now, is steel a basic material of our economy?

Secretary RUSK. Yes, sir.

Senator HARTKE. You agree with the words of President Johnson of August 12 of this year, that steel "is the core of industrial America. It has helped to make American productivity and technology the wonder of the world. This vital product which we produce in unmatched abundance is basic to our economy and essential to our security."

I understand those words mean something; right?

Mr. ROTH. Yes, sir.

Senator HARTKE (reading):

> It supports our buildings, spans our rivers, arms our fighting men. It is fundamental to thousands of products which are part of everyday life of every citizen of this nation. It will become increasingly important to us in the years that lie ahead. Research continues to uncover new uses for this durable and versatile product to satisfy exacting military and civilian requirements.

Those are the words of President Johnson on August 12 of this year, and I am sure you agree with that.

Yet, do you realize that the industry in the last 5 years, and I am talking about the last 5 years, and the experts can correct me if they want to, have never earned more than—I will quit in 1 minute—never earned more than 70 percent of the profits that they earned during the period from 1951 to 1955 or 1955 to 1956 and 1959, or do you realize that in the last 10 years, the industry had the lowest return on investment capital of the 40 major manufacturing industries?

Do you realize that the steel industry has higher fixed costs than almost any other manufacturing industry, and that as far as their increase in exports, it cuts down from domestic steel output, and because of the high fixed costs which occur, regardless of output, the cost per ton of domestic steel is continuing to increase, and realizing in the first 6 months of 1967, contrary to your testimony given here, imports rose by 10 percent, domestic sales fell by 7 percent, and profits fell by 28 percent?

Do you realize that the steel industry in their attempt to cut costs by investing in new technology, and that this cannot be done unless there are returned earnings, and their profits do not fall.

Contrary to Mr. Roth's statement, it you take the periods of corporate profits after taxes, instead of going up 38 percent, they have dropped 28 percent in the first 6 months of this year.

I would just like to get one other statement in, and that is the fact that there is an overcapacity of steel in the world today of some 70 to 80 million tons, and the United States of America has helped to finance steel mills in 30 countries since 1950, and Russia has helped to finance six more.

Before 1950 there were 30 steel producing countries in the world and now there are 66. The U.S.S.R. has spent nearly a billion dollars to finance steel plants in India, Iran, Algeria, and the United Arab Republics. We have spent over $2.2 billion to finance most of the other newcomers, and, thereby, reduced our exports, increased our imports, and cut down job opportunities for steelworkers.

The CHAIRMAN. Thank you very much, Senator Hartke.

Senator Hartke's time has expired.

Senator Curtis.

Senator CURTIS. Mr. Chairman, I want to yield to the distinguished minority leader because of the time element, and I would just ask one question, not to be answered now, but to be supplied for the record by the Secretary of Agriculture.

Mr. Secretary, would you provide the committee with a complete tabulation of all the costs and the expenditures of the United States to promote agricultural exports, what they are, how they work, and what we spend out of the Federal Treasury one way or another, both in giveaway, subsidized price, subsidized freight, and so on, if you will do that for the record.

Secretary FREEMAN. Yes.

(The Secretary of Agriculture subsequently informed the committee that an answer to Senator Curtis' question could not be prepared in the time available.)

Senator CURTIS. Then I yield to Senator Dirksen.

Senator DIRKSEN. Mr. Chairman, first I had better inquire of our distinguished Cabinet guests here, what is your time picture? I see that clock says 12:23.

Secretary RUSK. I am afraid, sir, we ought to leave at 12:30. We originally thought we might have to leave at 11:45, but our other meeting was deferred for 45 minutes.

Senator DIRKSEN. You know 7 minutes is as nothing in the life of a Senator.

Secretary RUSK. I understand. [Laughter.]

Senator DIRKSEN. I have got a whole line of questions, Mr. Secretary, and I assume, I would just as well defer that because I can get this at any time.

Secretary RUSK. I can arrange for witnesses to be available, Senator.

Senator DIRKSEN. I am sure you can. So I would rather not inconvenience the Cabinet, since they are going en masse to another place to meet.

I just want to once more express my delight to see them all. I wish you had brought your colleagues along, the Secretary of Defense and a few more; it would have been, that would have made it a complete meeting.

So I think at this point you will probably, for the sake of convenience and because of the traffic, want to get back to the next appointed meeting.

The CHAIRMAN. May I just make this statement with regard to the news media. This committee has been gradually liberalizing its rules with regard to radio and television coverage.

Recently, we have respected the request of the Senators who wanted radio and television in this committee room. It started as of this year. We have not had the radio and television coverage unless it was requested by a member of the committee.

The news media inquired about the situation with regard to this morning's hearing and with the chairman on his way here, the staff member informed them of the rule.

If any member of the Cabinet at any future date wishes to request that we have television and radio coverage of any particular hearing before this committee, as far as the chairman is concerned, he would expect to honor it.

Thank you very much, Mr. Secretary.

Senator HARTKE. I have a question Senator Young of Ohio wanted to ask, which I will submit for the record.

(The question above referred to follows:)

Question. I understand that the Petrochemical Companies have a vital interest in the oil import program. What are your views and position regarding special needs as far as raw materials (feed stocks) are concerned?

(The answer received by the committee follows:)

Answer. Import allocations are made available for petrochemical companies under the mandatory oil import control program. A group of 10 petrochemical companies has suggested to the Administration that the existing program be revised to take account of these companies' increasing need for feedstocks derived from petroleum. These companies maintain that, unless they have increased access to foreign feedstocks in the future, their competitive position in the U.S. market and in foreign markets will be adversely affected, with attendant implications for the U.S. balance of payments. We are reviewing the chemical company proposal and other alternatives.

The CHAIRMAN. We will be back here, then, at 2 o'clock, and we are going to change the order somewhat to accommodate the time problems of the members of the committee. We will hear from those representatives of the mink producers at 2 o'clock.

We will have a statement from Gaylord Nelson, Senator from Wisconsin, and we will hear from Mr. Richard Westwood, and Mr. G. Wedell, of the Danish-American Trade Council. Mr. Westwood is from the National Board of Fur Farm Organizations.

Thank you very much, Mr. Secretary.

(Whereupon, at 12:25 p.m., the committee adjourned, to reconvene at 2 p.m. this same day.)

(Two bills, S. 1856 and S. 1897, to amend the Tariff Schedules of thc United States with respect to the rates of duty on whole skins of mink, whether or not dressed, follow:)

MINK SKIN IMPORTS*

90TH CONGRESS
1ST SESSION

S. 1856

IN THE SENATE OF THE UNITED STATES

MAY 24, 1967

Mr. NELSON (for himself, Mr. YOUNG of Ohio, Mr. MORSE, Mr. MCGOVERN, Mr. MCCARTHY, Mr. HATFIELD, Mr. METCALF, Mr. MONDALE, Mr. MUNDT, Mr. MOSS, Mr. MILLER, Mr. BAYH, Mr. PROXMIRE, Mr. JACKSON, and Mr. MAGNUSON) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Tariff Schedules of the United States with respect to the rate of duty on whole skins of mink, whether or not dressed.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) schedule 1, part 5, subpart B of the Tariff Sched-

*Witnesses testifying on this subject, pp. 63–100.
Communications received by the committee on this subject, pp. 100–110, and p. 1153.

ules of the United States (19 U.S.C. 1202) is amended by inserting after item 123.50 the following new items:

“	Whole skins of mink, whether or not dressed:		
123.61	In each calendar year before the entry, or withdrawal from warehouse, for consumption of the number of such skins which equals 40% of the domestic consumption of such skins during that year, as estimated by the Secretary of Agriculture under headnote 5 to this subpart....................	Free	Free
123.62	In each calendar year after the entry, or withdrawal from warehouse, for consumption of the number of such skins which equals 40% of the domestic consumption of such skins during that year, as estimated by the Secretary of Agriculture under headnote 5 to this subpart....................	50% ad val.	50% ad val.
123.65	Plates made of two or more whole skins of mink, whether or not dressed....................	50% ad val.	50% ad val. ”

(b) The headnotes for schedule 1, part 5, subpart B of such Schedules are amended by adding at the end thereof the following headnote:

“5. The Secretary of Agriculture, for each calendar year after 1967, shall, before the beginning of such year, estimate, publish, and certify to the Secretary of the Treasury the number of whole skins of mink, whether or not dressed, that will be domestically consumed during such year. Estimations made by the Secretary of Agriculture under this headnote shall be final.”.

SEC. 2. The amendments made by the first section of this Act shall apply with respect to articles entered, or withdrawn from warehouse, for consumption on or after January 1, 1968.

90th CONGRESS
1st Session

S. 1897

IN THE SENATE OF THE UNITED STATES

June 5, 1967

Mr. Bennett (for himself and Mr. Hruska) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Tariff Schedules of the United States with respect to the rate of duty on whole skins of mink, whether or not dressed.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) schedule 1, part 5, subpart B of the Tariff Schedules of the United States (19 U.S.C. 1202) is amended by inserting after item 123.50 the following new items:

"		Whole skins of mink, whether or not dressed:			
	123. 60	In each calendar year before the entry, or withdrawal from warehouse, for consumption of the number of such skins which equals 40% of the domestic consumption of such skins during that year, as estimated by the Secretary of Agriculture under headnote 5 to this subpart..................	Free	Free	
	123. 62	In each calendar year after the entry, or withdrawal from warehouse, for consumption of the number of such skins which equals 40% of the domestic consumption of such skins during that year, as estimated by the Secretary of Agriculture under headnote 5 to this subpart...	50% ad val.	50% ad val.	
	123. 65	Plates made of two or more whole skins of mink, whether or not dressed......................	50% ad vál.	50% ad val.	"

(b) The headnotes for schedule 1, part 5, subpart B of such Schedules are amended by adding at the end thereof the following headnote:

"5. The Secretary of Agriculture, for each calendar year after 1967, shall, before the beginning of such year, estimate, publish, and certify to the Secretary of the Treasury the number of whole skins of mink, whether or not dressed, that will be domestically consumed during such year. Estimations made by the Secretary of Agriculture under this headnote shall be final."

SEC. 2. The amendments made by the first section of this Act shall apply with respect to articles entered, or withdrawn from warehouse, for consumption on or after January 1, 1968.

Senator BENNETT (presiding). Ladies and gentlemen, we are going to start the hearings promptly, even in the absence of the chairman.

In accordance with the arrangements previously made, the first witness was to have been the Honorable Gaylord Nelson, who has advised the committee that he will not appear but will submit a statement and, therefore, we will go on to the second witness, Mr. Richard E. Westwood, of West Jordan, Utah.

(Senator Nelson's statement appears at p. 102.)

Will you take the stand, Mr. Westwood, please.

I have a special interest and satisfaction in opening this hearing for Mr. Westwood because he comes from my State of Utah, and is a mink rancher from West Jordan.

He produces about 8,500 pelts annually at the present time, and has been producing mink for 22 years.

He is a member of the West Jordan Town Board and the Salt Lake Valley Citizens Committee, so he has had a deep interest in civic affairs.

He is also president of the EMBA Mink Breeders Association, which is a national association marketing its products worldwide.

He is also first vice president of the National Board of Fur Farm Organizations, representing all mink rancher associations, and has other responsibilities in other industry organizations.

With him is Mr. David Henderson, formerly from Utah, and now executive secretary of the National Board of Fur Farm Organizations; and Mr. Harold Lovre, former Congressman from South Dakota, presently the attorney for National Board of Fur Farm Organizations.

Mr. Westwood has submitted to the committee 22 letters written by mink producers expressing their position on this legislation.

I should say, without objection, but as I look around I do not see anyone to object, so we will put in the record the names of a number of people, and their letters, many of which are written by hand, will be added to the files of the committee in this hearing but not included in the printed record.

(The names above referred to follow:)

Anderson, Dale V., President; Peterson, Dennis, Secretary-Treasurer; Stone, John R., National Board Member, South Dakota Fur Farmers, Mitchell, South Dakota.

Arndt, Ernest, President, North Central Wisconsin Mink Club, Inc.; Grahl, Merrill, Secretary; Magnuson, Herbert, National Board Director, Phillips, Wisconsin.

Bender, Frank, President; Pipkorn, Elmer J., Secretary; Sheuerkauf, Gerald, Director, National Board of Fur Farm Organizations, Inc., Upper Michigan Mink Breeders' Association, Escanaba, Michigan.

Bennett, Lester W., L. W. Bennett and Sons, Inc., Victor, New York.

Bloss, Arthur, Director of Emba, Salem, Wisconsin.

Coleman, Benton, President, Lake Region Fur Producers Association; Bohn, Donald, Rep. to the National Board; Eidenschink, Patricia J., Secretary-Treasurer, Lake Region Fur Producers Association, Detroit Lakes, Minnesota.

Dougan, Elbert M., President; Dougan, Carlene, Secretary-Treasurer; Gibson, Lloyd W., National Board Director, Western Colorado Mink Breeders Association, Delta, Colorado.

Earhart, Lestel, President; Slack, Mrs. Ella, National Board of Fur Farm Organizations, Secretary; Upton, Gain, Hoosier Mink Breeders Association, Royal Center, Indiana.

Ellison, Oscar E., President, Trenton, Illinois; Pirok, Henry T., Secretary, Worden, Illinois, Central Illinois Mink Ranchers Association.

Erekson, Alma O., President; Searle, Charles L., Secretary; Westwood, R. E., Vice President and National Board Representative, Fur Breeders Agricultural Cooperative, Midvale, Utah.

Frisch, Robert R., Executive Vice-President, Northwood Mink Farms, Inc., Cary, Illinois.

Gordon, Roy F., President, Nebraska Mink Breeders Association, Bennington, Nebraska.

Hacklander, John R., President, Wisconsin Board of Fur Farm Cooperative, Janesville, Wisconsin

Harman, Roy D., Harman Fur Farms, Christiansburg, Virginia

Harmon, Robert, President, Northwest Fur Breeders Cooperative, Edmonds, Washington

Hofacre, Paul, Director to National Board of Fur Farm Organizations; Mead, Emmett, President; Chylsta, Charles, Secretary-Treasurer, Ohio Mink Breeders Association, Ravenna, Ohio

Jacob, Ted, President, Oregon State Fur Breeders Association, Tillamook, Oregon

Jansen, John, President, West Iowa Fur Breeder's Association, Simmons, Vashti, Secretary

Klinger, John, President, Gannon, Francis, Secretary, Wenstadt, John, N. B. Dir., Chippewa Valley Fur Growers, Chippewa Falls, Wisconsin

Kosinski, Daniel, Secretary; Pavek, Robert, President, Lakeland Fur Growers' Association

Krieger, Frank, Great Lakes Mink Association, Director to the National Board of Fur Farm Organizations, Kenosha, Wisconsin

Kurbajec, Frank, Kenosha, Wisconsin

Mahon, B. E., Executive Sec'y, Olympic Fur Breeders Assn., Inc., Port Orchard, Washington

Main, Austin, Secretary; Straight, Leslie, President, Western New York Mink Breeders Association

Meyer, Robert F., President, North Shore Mink Breeders Association, Kenosha, Wisconsin

Moore, Larry, President, Larry Moore Ranch, Inc., Suamico, Wisconsin

Mueller, Everett, President; Erickson, Palmer, Jr., Legislative Chairman; Iowa Fur Farmers Association, Fredricksburg, Iowa

Plier, Martha, Secretary, Mink Breeders Association of Illinois, North Chicago, Illinois

Rabel, Larry, Jr., President; Mingo, Phil J., Secretary and National Board Representative, Fur Farmers Cooperative Association, Minneapolis, Minnesota

Saxby, Allan W., President, Saxby Fur Farm, Inc., New York State Mink Farmers Association, Holcomb, New York

Schmidt, Leonard, President, Minnesota Fur Breeders Assn., Okabena, Minnesota

Space, Ralph, President, New Jersey Fur Breeders Association and Director, National Board of Fur Farm Organizations, Inc.; Yucius, Walter, Secretary, New Jersey Fur Breeders, Sussex, New Jersey

Trabucco, Ugo, Secretary, Board of Directors, Oregon Fur Producers; Willson, Woodrow, Director, National Board of Fur Farms, Oregon State Fur Breeders Association, Astoria, Oregon

Wakefield, Lawrence, Secretary, Michigan Fur Breeders Association, Traverse City, Michigan

Werth, John A., President, Fur Foods Co-op, Inc., Madison, Wisconsin; Jarlsberg, Warren, Secretary-Treasurer; Brown, Dwight T., National Board of Fur Farms Director

Westwood, Richard E., President; Sturgeon, Andrew, Secretary, Zimmerman, Myrle, Vice-President and Director to the National Board, Emba Mink Breeders Association, New York, New York

Wiesman, Emil O., Member of the National Board of Fur Farming Chain O'Lakes Fur Breeders Representative, Caroline, Wisconsin, enclosing letter from Heistad, Arthur, Manager, Production Credit Association, Shawano, Wisconsin

Young, William D., President; Olsen, Erna B., Secretary and Treasurer, Schroeder, Clyde, Director to National Board of Fur Farm Organizations, Etrick, Wisconsin

Zimbal, Robert, President; Braats, Harold, Secretary; Bahr, Chester, National Board Director, Kettle Moraine Mink Breeders Association, Plymouth, Wisconsin

Senator BENNETT. Mr. Westwood, we are very happy to welcome you, and we will be glad to hear you.

STATEMENT OF RICHARD E. WESTWOOD, FIRST VICE PRESIDENT, NATIONAL BOARD OF FUR FARM ORGANIZATIONS, INC.; ACCOMPANIED BY DAVID HENDERSON, EXECUTIVE SECRETARY; AND HAROLD LOVRE, COUNSEL

Mr. WESTWOOD. Thank you, Senator Bennett.

Senator BENNETT. Anybody who has been chasing 8,500 mink around West Jordan should be able to make himself heard.

Mr. WESTWOOD. I am going to leave out part of the text of my prepared talk in the interest of keeping within the time limit.

Senator BENNETT. It will all be included in the record.

Mr. WESTWOOD. I would like to have it all included.

Senator BENNETT. It will be.

Mr. WESTWOOD. Thank you.

My name is Richard E. Westwood, of West Jordan, Utah, first vice president of the National Board of Fur Farm Organizations, Inc., a nationwide trade association devoted to the domestic mink ranching industry. This organization represents over 95 percent of the mink ranchers of the United States, and its 51 constituent member associations represent virtually all mink ranching association activity in the United States. I also speak in the capacity of president of EMBA Mink Breeders Association.

It is my sad privilege to speak to you today on behalf of a group of proud and otherwise self-reliant agricultural producers, the mink ranchers of the United States, who are fighting for their very survival. Imports, riding "piggyback" on a new and unique industry, and sheltered by duty-free entry, have reached the proportions of a tidal wave which inundates our markets and paralyzes our sales.

Unlike most of the industries scheduled to speak at these hearings, the mink ranching industry is not merely concerned with its rate of profit, but with its right to survival. Its last crop of mink pelts, some 9 million, a quantity far below the total annual consumption in the United States, has now been marketed, with great difficulty, far below cost of production. As a result, its producers face imminent disaster, since, like many other agricultural producers, the sales proceeds of one crop must provide the financial resources for reseeding and propagating a succeeding one.

In producing the 1965 crop, over a billion pounds of agricultural and marine byproducts were utilized by mink ranchers who spread their $69 million worth of feed purchases over grains, packinghouse and poultry offal, fish, and nutritional fortification materials. Over half of the States sell a million or more dollars' worth of byproducts for mink feed annually.

Now, we have never asked for, nor do we want any subsidies, but out of sheer desperation, we have turned to the Congress of the United States as a last resort, hoping that its power and wisdom will find a way for us to retain our farms, and our skills, and our life's savings.

Mink ranching, as a profession, is just as American as movies and jazz and mass production. And like other American genius that has spawned endless enriching industries for the benefit of mankind, its roots lie deep in native ingenuity and self-reliance. Mink is peculiarly native to North America only, and the idea of converting its forest beauty into an agricultural product for the benefit of the fashion-conscious women of the world was a North American idea. In the span of about 40 years, the mink rancher has brought this difficult little animal from an esoteric forest oddity to its present rank—by far the most popular of all furs in the fashion world.

After 1940, American mink farmers, having solved some of their cagey breeding and production problems, formed marketing groups, and it was their genius to recognize from the start that funds must be provided from their own sales to build consumer demand and to set quality standards for the protection of the consumer. Further foresight and genetic skill enriched the product of providing, in rather rapid succession, a range of natural mutation colors giving it endless adaptability. No other livestock industry can match the rapid scientific breeding progress developed by American mink ranchers. For more than a generation, its associations have insisted on:

(*a*) Quality control and consumer protection;

(*b*) Product enrichment from new color and texture; and

(*c*) Self-generating programs to build consumer demand through promotion and advertising.

All of these cardinal points of self-help took money which might otherwise have been taken as profit by less progressive producers. The ranchers' association efforts since the early 1940's have been able to double the consumption of mink in the United States every 10 years and they have spent an aggregate of about $20 million in doing this.

In the last crop year—1965—for which records are complete, the ranchers produced 8¼ million mink pelts, then worth $160 million.

But little profit. In fact, during the past five seasons, 40 percent of our producers have been forced out of business and currently the survivors are facing disaster. Why?

No rich and promising market such as that created and built by the American mink ranchers can escape the hungry gaze of enterprising foreign producers—especially while that market remains exposed mercilessly to invasion, from the binding of mink to the free entry list, a classification, by the way, which was erected without consulting the mink rancher who created the product.

It is hardly surprising, therefore, that the rancher long ago became conscious of an unfair foreign competition, slowly stealing his market away, riding "piggyback" on his promotions, producing at a lower cost and expanding exports into the rich American happy hunting grounds which lay ahead, wide open, without an iota of import regulation.

After import quantities began to back up at trade levels in the American market in 1959, the ranchers, through their legislative arm, the National Board of Fur Farm Organizations, Inc., asked for Government relief through the escape clause, but the Tariff Commission after a study of the industry, ruled that imports were not the injury claimed.

As predicted by the ranchers, ingestion of increased quantities of mink, particularly from Scandinavia, sent the world market crashing. Prices fell from $21.48 to $16.41, a 23-percent drop, establishing a valuation base from which we have never really recovered. Since that time we have lost over 40 percent of our producers, forced out of business by the cost-price squeeze.

Other avenues of Government relief were earnestly searched for, with none promising to be effective. Since the Trade Expansion Act of 1962 established rigid policy lines for freer world trade, we have lived in a kind of terror, on the one hand respectful of ennobling Government efforts to upgrade world prosperity, and on the other hand fearing the inevitable catastrophe from foreign competition which believed that the American woman would consume an endless number of mink pelts, without the logical financial assist to build new consumer demand.

And the inevitable descended upon us. In the past marketing season prices fell from $19.48 to well below $14, nearly a 30-percent break, and well below the cost of production. What industry can take such dislocations as this? What respect for free world trade can be generated from competition that demoralizes and displaces a unique and valuable contribution to our agricultural and national economy?

In 1966 total imports increased 16 percent and in the case of the four Scandinavian countries, over 23 percent. As examples of unreasonable expansion, Denmark increased her imports to the United States 28 percent and Norway over 38 percent.

Senator BENNETT. May I interrupt at this point to ask you if that is an increase in 1 year?

Mr. WESTWOOD. Yes.

Senator BENNETT. That is an increase in 1966 over 1965?

Mr. WESTWOOD. That is correct.

Senator BENNETT. Thank you.

Mr. WESTWOOD. In the corresponding period, growth of production on American ranches remained at a mild and cautious 9 percent.

Why cautious? Still mindful of the crash of 1960. Still trying to find money to build new consumer demand. And still hardly able to make a profit from the price structure of the sixties, from which 40 percent of the producers gave up.

The price structure of the 1960's, however, did not impede our foreign friends. Imports grew from 2¾ million, the total at the time of the 1959 Tariff Commission escape clause failure, to 5,675,000 in 1966, more than doubling in that short span of years.

In 1956, imports claimed 30 percent of the American market, in 1959 we were concerned that they claimed nearly 35 percent of consumption, but in 1966 their probable share will be 42 percent. Where will they stop?

Apparently, there is no limit to the ability of imports to swallow up the domestic market. American producers, facing this stealthy encroachment of their own rightful domain, are only too conscious of the advantages handed out by Government to foreign mink ranchers through duty-free entry. For the foreign rancher works from a lower cost of living, produces with noticeably lower labor costs, and makes little financial contribution to the building of consumer demand.

And, forgive us, to point out here that he pays no taxes to the U.S. community, maintains no schools here, carries no local civic responsibilities, and elects no public officials. Forgive us, too, if, borrowing a term from railroading, we use the term "piggybacking" in a loose manner.

As an example of the kind of competition we face, the last 3 or 4 years have resulted in a total of 15,000 to 20,000 Scandinavian producers, each of whom it is said average about 450 pelts per annum. Such insignificant average ranch production is hardly more than moonlighting and obviously does not constitute the producers' principal source of income. By contrast American ranches average over 2,250 pelts per annum, a quantity which requires serious full-time engagement.

Under the moonlighting conditions of the average Scandinavian producer, labor is provided largely by a member of the family in spare hours and payroll demands such as face American ranchers are hardly a major production factor.

An exception to this frightening picture of foreign competition is Canada, our neighbor and coinventor of mink ranching. Canada, in the years before 1959, assisted financially in building a mink market in the United States. Her ranchers share similar cost-of-production demands with us and, understandably, her growth rate, like our own, in recent years remains halting and cautious. Once the principal source of imports, Canada now ranks in fourth place and shipments to us are slowly declining.

Other foreign competition remains relatively static. But Scandinavia, which two decades ago was of little consequence, now exceeds the United States as the world's major producer of mink. That is—achieved such status in the year of world market disaster—is, we think, significant.

Though Scandinavian rancher associations have spent some money in the American market, it has been largely used at trade levels in pirating our own trade customers and trade relationships—but little to the building of new consumer demand.

Our brief to the committee staff will certainly contain a tight documentation of our case, but our reason for being here today is very simply a case of survival.

Though total export figures on mink pelts do not tell the whole story, there has been a steady increase in the percentage of ranch-raised mink pelts going abroad. Last year exports totaled well over a million and brought home $22 million in gold. Ranchers' pelts accounted for more than three-fourths of this bullion and the total will steadily increase. By contrast, imports cost us in 1966 well over $73 million in gold.

Analyzing the statistics in the case is very interesting, and our brief to the committee staff will certainly contain a tight documentation of our case, but our reason for being here today transcends the theory and practice of free or reciprocal trade. It is—very simply—a case of survival.

Competition with foreign producers, as they are presently aided by duty-free entry, has brought us to the brink of disaster. Having exhausted all hope of administrative relief, we have laid our cause before Congress, where in the last months we have found many Congressmen and Senators who have given us courage and encouragement. To date, over 75 companion bills or cosponsorships have been introduced on our behalf, patterned after the pilot H.R. 6694, introduced by Congressman James Burke of Massachusetts.

In this action we have requested Congress to grant a simple device—that is, to freeze the status quo as to the sharing of the American market with imports. The bill directs the Secretary of Agriculture to determine the domestic consumption of mink in 1 year and to establish a quota limiting imports to 40 percent in the next. We think this is a fair bill.

What other American industry, protected or not by tariffs, is willing to guarantee its foreign competition that share of its domestic market even in the face of disaster? Who else is willing to share future growth to that extent? Some of our congressional friends say that this is too liberal and that a freeze of status quo will but perpetuate the elements of disaster already so apparent.

Your indulgence in our case to hear the complaint and to carry it to careful staff investigation is appreciated by all of the mink ranchers of the United States. Without Government intercession at this point, their proud and resourceful industry will certainly vanish. Without some reasonable economic device that will assure stability in future years, their ability to accumulate funds for product and market promotion will quickly evaporate. Without the mink rancher, the fur industry itself will find it hard put to promote and vitalize its own consumer demand, something it has never been able to do for itself.

Now, in summary, I would like to say that we produce an agricultural product and use vast quantities of agricultural and marine byproducts in doing so. We have created the product and built the market by spending $20 million of our own money on advertising and promotion.

Imports have taken a share of the market over the years, a large share—an increasing share.

Forty percent of our ranchers have gone out of business due to the cost-price squeeze, due to foreign competition.

The remaining ranchers face disaster from selling the last crop below cost of production.

Our bill allows continued trading, duty free up to 40 percent of domestic consumption. This will permit more imports as a profitable market is developed. We need help now.

Mr. Chairman, in behalf of the domestic mink ranching industry, I wish to thank you for the fine consideration you have given us in permitting us to present our case to you. As an industry, we are in a state of crisis, and it is our hope that you can give us expeditious and remedial relief.

Again, thank you for your consideration.

Senator Bennett. Thank you very much, Mr. Westwood. I have no particular questions, and since there is no other member of the committee here, there will be no questioning, but I should like to add to the record the figures developed by the committee staff and found on page 155 of its booklet, "Background Material on Quota Legislation," which show that for the years 1963 through 1966 the percentage of mink imports into the United States was greater than 40 percent, a high of 43 percent in 1965 and 1966; 42 in 1963; and 41 in 1964; so that it seems to me your proposal of a 40-percent quota is approximately equal to the present relationship, and rather than being a dramatic cutback, which would give you back part of the market which you have lost would, in effect, actually hold you where you are now, more or less.

Mr. WESTWOOD. Yes, sir.

Senator BENNETT. I think these figures are important.

(The prepared statements of Mr. Westwood and Mr. Henderson follow:)

THE MINK RANCHING INDUSTRY FACES EXTINCTION FROM UNFAIR FOREIGN COMPETITION

Statement of David W. Henderson, Executive Secretary of the National Board of Fur Farm Organizations, Inc., With Richard E. Westwood

Since the early 1940's, when mink ranching became a full-fledged industry, ranching associations have sought government assistance in regulating imports. As the new American industry grew, it appropriated from its own gross sales a fund to build new consumer demand. Fear of invasion of its market on the part of unregulated imports was therefore based on two considerations:

a. Imports, duty-free, exploited an advantage of lower cost of production, based on foreign economies representing lower living standards.

b. Imports contributed nothing to the building of consumer demand to accommodate increasing supply.

Since the United States was the world's principal consumer, it would only be a matter of time before imports would drive domestic production out of the American market.

American ranchers sought to offset these disadvantages by upgrading the quality of their product, and by creating new mutation colors in an effort to achieve new adaptability and to bring new fashion color to the world market before foreign competitors could imitate their offerings.

By 1958 this race for survival has reached a critical peak, when excessive quantities of imports began to back up at trade levels in alarming quantities. Imports had grown in volume over the years from almost nothing to more than fifty percent of domestic production. The National Board of Fur Farm Organizations, Inc., speaking for the entire mink ranching industry in 1959 requested government relief through an Escape Clause action, but the Tariff Commission ruled that imports were not the cause of injury, within the concepts then laid down by law governing executive action, and, as the ranchers predicted, excessive over-loading of the market by imports in the following year sent the market crashing from a pelt level of $21.48 to $16.41, a 23% drop, sending 40% of the domestic producers out of business in the succeeding years. The price structure, hovering close to cost of production, has never recovered from this break.

Imports, encouraged by failure of American ranchers to secure government regulation through the Escape Clause, mushroomed in volume from 2.846,000 in 1960 to 4,131,000 in 1961, accounting for over 40% of domestic consumption in the latter year. Imports now had increased to more than 61 percent of domestic production.

The mink ranching industry, paralyzed by these developments, bring in a kind of terror from duty-free imports from which no relief could be found, struggled through the sixties tolerating a wobbly market bringing prices barely covering cost of production, losing 40% of its producers, and slackening its rate of growth to an average of less than 6% per year. In these years, the volume of imports rose from 2,846,000 in 1960 to 5,675,000 in 1966, doubling in that short span; and this growing burden of quantity in the domestic market vastly increased the need for membership contributions to build new consumer demand.

After a brief rise in world market prices in early 1966, excessive quantities of imports began to back up at trade levels in September and October, and in November it became apparent that over a million skins, in excess of normal inventories, were lying on shelves waiting for demand. At the opening of the market in December, and in spite of a tight money squeeze claimed by the trade, American buyers went to Europe and purchased another million skins, dumping them into an American market already saturated, at a cost of $12½ million. Falling prices, precipitated by an already obvious carry-over, tempted buyers from the United States to hunt bargains at European sales, where "free-selling" policies "cut the goods loose" without limits. This burden of import volume continued through January with yet another million, setting all-time records.

By the time American ranchers could organize a major sale, their market had become completely demoralized by phantastically excessive quantities and falling prices already below American cost of production. In the months ahead American ranchers finally succeeded in disposing of 95% of their 1966 crop with an average price break, compared to the season previous, of over 30%. Such a market left them destitute and far short of the necessary funds to mature a succeeding crop, already well under way. From preliminary estimates for 1966 it now seems probable that imports climbed to a record 42% of domestic consumption.

At the opening of the 1966/67 season Scandinavian marketing associations proudly announced that they would offer 9.4 million pelts, thereby establishing themselves, the four Scandinavian nations collectively, as the world's major producer of mink:

Such distinction was achieved largely because of—

a. Duty-free access to the American market,

b. Free use of the American ranchers' promotional funds finding new consumers,

c. Ready access to the American market to dump surplus crops whenever they could not be sold elsewhere.

Such extravagant opportunity had put the consumer market on a roller-coaster price ride, completely eliminating stability in market conditions, and leaving the American producer high, dry and bankrupt on his relatively high American standard of living. Are these the goals of free and reciprocal trade?

Some idea of the economics loss accruing to the internal economy of the United States from this dislocation of national trade policy can be gained from the figures below, isolating the shortages of funds suffered by the American mink rancher in living and facing the reseeding and propagation of a new agricultural crop:

THE ECONOMIC CONSEQUENCES OF SELLING THE 1966 CROP BELOW COST OF PRODUCTION, UNITED STATES

CAPACITY

	If sold at previous year's ($19.48) prices	Crop actually sold at 1967 prices ($14)	Projected shortage
Total investment	$257,512,000		
Total pelts produced	9,013,000		
Number of ranches	4,447		
Number of breeder females	2,575,000		
Gross sales	175,565,000	$126,176,000	$49,389,000
PRODUCTION COSTS			
Selling costs	$31,602,000	$22,712,000	$8,890,000
Feed	75,493,000	54,256,000	21,237,000
Labor payroll	40,380,000	29,021,000	11,360,000
Interest, depreciation and taxes	17,557,000	12,618,000	4,940,000
Management	8,778,000	6,308,000	2,470,000
FEED INGREDIENTS			
Total feed bill	$75,493,000	$54,256,000	$21,237,000
Cereals, dry ingredients	13,589,000	9,766,000	3,823,000
Fish	13,589,000	9,766,000	3,823,000
Poultry byproducts	11,324,000	8,138,000	3,186,000
Meat scraps	16,608,000	11,936,000	4,672,000
Liver, fortifications	20,383,000	14,649,000	5,734,000

Source: Estimates by the National Board of Fur Farm Organizations, Inc.

The integration of American mink ranching with the national agricultural economy is evident from the fact that the $75 million feed bill faced in maturing the 9 million pelts of the 1966 crop, accounts for over one billion pounds of agricultural by-products, as detailed in the above chart segregating the economic factors allocated to cereals and dry ingredients, fish, poultry, meat scraps, liver, tripe and other fortifications. The ability of the mink rancher to successfully utilize these waste or by-products is often the essential factor which allows a profit in the operation of these supplying agricultural industries.

The extinction of the American mink rancher as a necessary cog in the agricultural sector, therefore, would have many consequences in local economies in most of the states.

Without belaboring the reader with ponderous economic arguments, we find the RECORD sufficiently dramatic to illustrate the ranchers' case for relief. We, therefore, submit herewith a series of exhibits, based solely on Department of Commerce reports of imports and exports, and on rancher census reports to the National Board of Fur Farm Organizations:

Figure 1—Growth rate of the domestic rancher industry against the average price curve for crop years 1956–1966, illustrating the parallel market crashes of 1960 and 1966.

Figure 1–A—Addenda to the preceding Figure.

Figure 5—Domestic pelt price averages for crop years 1963–1966 with the disastrous price break percentages from the latest market.

Figure 6—The total mink imports into the United States for calendar year 1966, comparing volume with 1965, by principal sources.

Figure 7—Import trends from 1961–1966 illustrating the sharp acceleration of volume from Scandinavia in recent seasons.

Figure 8—Total raw imports into the United States for Calendar years 1964–1966 showing dramatic growth of volume from Scandinavia compared with other principle sources.

Figure 10—The increasing "bite" of imports into the domestic market from 1956–1966.

Figure 11—Growth of the American market by crop years with domestic consumption divided percentagewise between imports and domestic production. We would like to highlight this exhibit as the record, in that it contains all the salient statistics to illustrate the case, and for a period of years sufficient to account for developments.

Figure 12—Total mink production in the United States and its relation to imports, exports, price, and domestic consumption.

(Figures retain their original numbers as taken directly from An Economic Report to the Mink Ranching Industry, 1967, as delivered to the Directors of the National Board of Fur Farm Organizations, Inc., in annual meeting, August 1967. A copy of this report will be mailed separately to each of the members of the Senate Committee on Finance).

Among those industries clamoring for relief, we believe the American mink ranching industry is unique for the following reasons (to summarize):

Far from having any semblance of profit left from competing with duty-free imports, it fights now for its very survival, having sold its last crop far below cost of production. The on-coming market contains similar conditions for disaster to those in the preceeding one. Without government intercession such conditions will leave the rancher bankrupt.

Duty-free entry exposes the domestic mink market to unfair foreign competition, since imports:

Do not pay their share of market development;
Do not share similar cost of production;
Do not support the national economy.

Duty-free entry stimulates a foreign growth rate far in excess of this country's ability to absorb excessive foreign production.

Far from calling for a roll-back of imports, it requests its government only to freeze the status-quo, an action which should be compatible with free-trade policy.

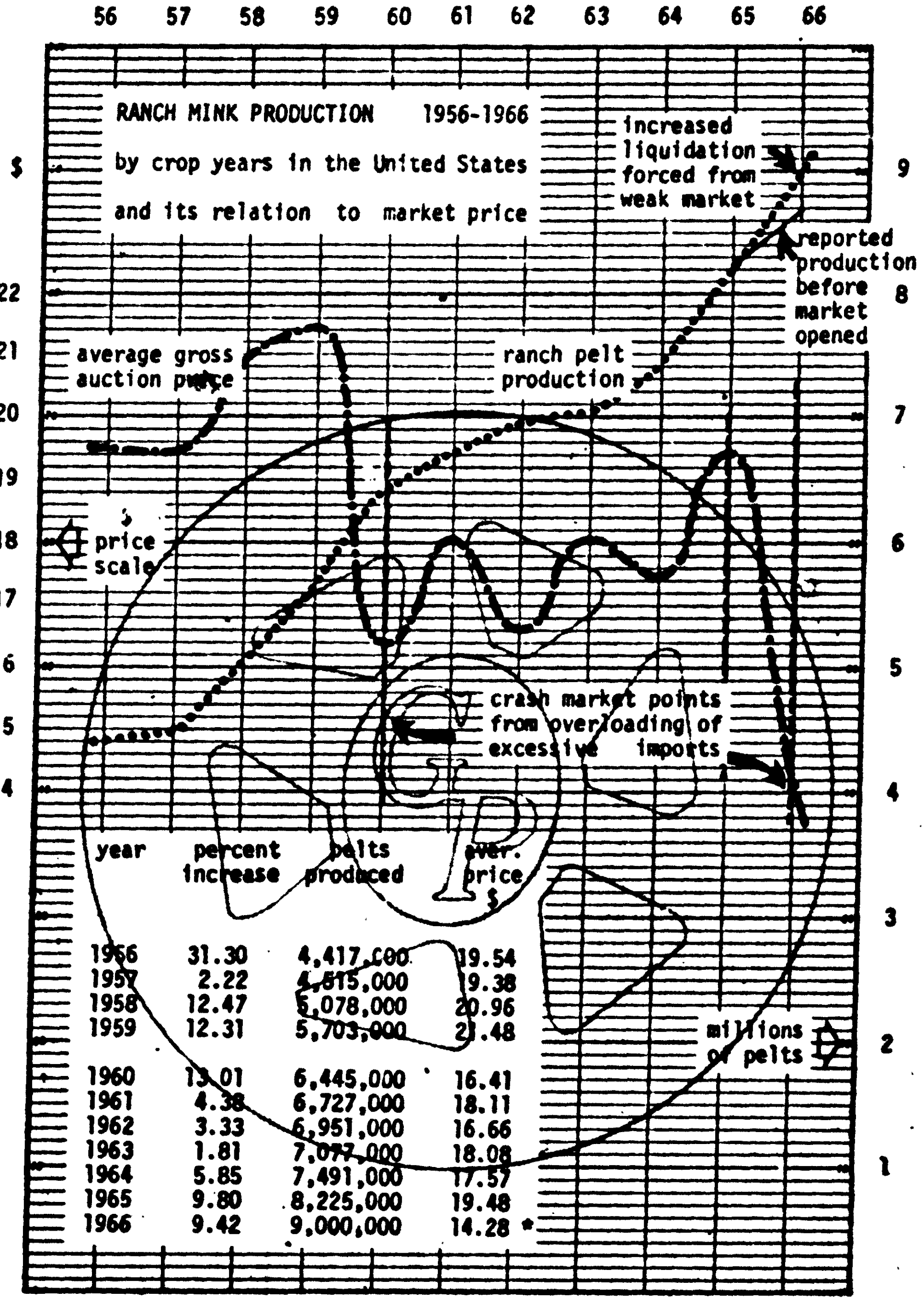
It expects to share future growth or future decline with its foreign competition in the ratio to the status-quo.

It was not pressed for and does not intend to press for either state or federal aid or support in any way, shape or form.

As a group which created, perfected, and in all ways excels in, the production of the world's most popular fashion material—furs, it expects its government to ensure its survival against foreign competition on reasonable economic terms.

Exhibits attached.

FIGURE I



year	percent increase	pelts produced	aver. price $
1956	31.30	4,417,000	19.54
1957	2.22	4,515,000	19.38
1958	12.47	5,078,000	20.96
1959	12.31	5,703,000	21.48
1960	13.01	6,445,000	16.41
1961	4.38	6,727,000	18.11
1962	3.33	6,951,000	16.66
1963	1.81	7,077,000	18.08
1964	5.85	7,491,000	17.57
1965	9.80	8,225,000	19.48
1966	9.42	9,000,000	14.28 *

FIGURE 1-A

RANCH MINK PRODUCTION IN THE UNITED STATES, 1956–1966

In this year of crisis a closer examination of the ranch mink production curve reveals the following detail:

Planned liquidation of the 1966 crop, as reported to the National Board on ranch census cards as of last November 1st, was indicated at 8.7 million. Succeeding sluggish sales and low auction prices apparently forced an additional 300,000 breeder females, from "winter pelting", into the market, as indicated from final IBM totals struck on June 30th. If we assume the normal average yield per breeder female to be 3.5, this attrition from economic pressure prevented the production of well over 1 million kits in the 1967 crop.

This is in answer to Scandinavian inquiries, citing reports in which the four Scandinavian producing countries are alleged to have killed off more than a million kits from the 1967 crop in an effort to adjust supply and demand for more normal prices, which ask what American efforts have been made to limit production.

In early 1967 press reports indicated that the Scandinavian countries were planning an increase for the new season of about 20% from 1966 crop levels, which had already been announced to the trade at about 9.4 million. Such figures would produce a 1967 crop of 11.3 million, far in excess of anything expected in the United States.

If, after the highly-touted Scandinavian plan to kill back 2.4 million kits from the probable 1967 crop of 11.3 million, we generously assume that 1.5 million kits were actually liquidated, we can still expect the 1967 Scandinavian crop to total 9.8 million skins, plus whatever breeding stock liquidation is forced from an admittedly poor market prospect, leaving Scandinavian production higher than ever.

THE PRICE CURVE HAS BEEN ADDED TO THE PRODUCTION CURVE

After the National Board failed in 1959 to gain relief from imports through the Escape Clause, from a Tariff Commission review, the market crashed, as predicted, in 1960, and during the succeeding years the ranching industry lost over 40 percent of its producers, obviously not able to produce profits from the sluggish market returns. Even including the brief respite of a more bouyant market in the 1965–66 season, prices averaged only $17.71 gross, for the crop years 1960 through 1965 hardly above cost of production.

Through those years American production growth was halting and cautious and ranchers searched for new methods of production efficiency, and renewed their efforts, through voluntary sales deductions, to build new consumer demand and to perfect new merchandising methods.

The gross auction price average for the 1966–67 season is flagged at $14.28 with the reservation that 40,000 to 500,000 pelts remain yet to be sold, proceeds from the final sale of which will no doubt result in a final gross auction price average well below the $14.00 level.

FIGURE 5.—DOMESTIC MINK PELT PRICE AVERAGES, 1966 CROP COMPARED WITH 3 PREVIOUS YEARS

Type	Average gross pelt price				1965–66 percent market decline	Percent of total sales by auction
	1963	1964	1965	1966		
Darks:						
All types	$23.03	$19.17	$20.58	$14.77	28.27	23.62
Standards	....	19.28	21.06	14.90	29.25	22.62
Other	....	17.22	16.65	12.32	26.01	9.96
Pastel	18.21	15.91	16.19	12.36	23.66	29.67
Pale Brown	15.24	15.79	18.69	12.44	33.44	18.58
Standard colors	....	....	17.95	13.29	25.96	55.15
Sapphire	16.35	19.31	24.06	15.63	35.04	6.12
Gunmetal	17.75	17.94	20.11	12.72	36.75	2.48
Platinum	14.23	15.91	17.42	11.20	35.71	7.88
Blue colors	....	....	21.84	14.31	34.48	9.41
Violet	19.46	23.41	29.12	20.92	28.16	10.02
Lavender-hope	20.81	20.98	23.86	16.58	30.51	5.12
Pearl	17.90	18.95	23.88	16.90	29.23	15.00
White	15.32	17.98	23.90	14.16	40.75	2.74
High shades	....	....	25.11	17.58	29.95	32.88
Unclassified	14.88	12.62	11.98	7.81	34.81	2.57
Total	18.08	17.57	19.48	14.28	26.69	100.01

The figures given above are strictly preliminary, since 400,000–500,000 pelts from the 1966 crop remain to be sold, market prospects for which remain depressing. All the averages shown above will, no doubt, be revised downward. The overall average gross auction price of $14.28, when all reports are in will wind up well below the $14.00 mark.

Price averages as abcve are computed on the basis of 5.2 million pelts, sold by all auction outlets to date and reported to us by

New York Auction Company, Inc., New York City
Hudson's Bay Company, Fur Sales Inc., New York City
Ranchers' Fur Auctions, Milwaukee
Seattle Fur Exchange, Seattle
New York Auction Company (Minnesota), Inc., Minneapolis

FIGURE 6.—TOTAL MINK IMPORTS INTO THE UNITED STATES, CALENDAR YEAR 1966

Imports from—	Number of pelts	Average value	Total value	Per ..t of total raw imports	Percent increase (decrease) over 1965
Canada	799, 734	$15. 04	$12, 026, 436	14. 15	(5. 58)
Scandinavia:					
Denmark	1, 507, 559	12. 32	18, 567, 477	26. 68	28. 32
Finland	695, 984	12. 60	8, 770, 959	12. 32	15. 98
Norway	1, 182, 411	13. 28	15, 700, 458	20. 92	38. 66
Sweden	1, 001, 339	12. 46	12, 479, 445	17. 72	8. 44
Total, Scandinavia	4, 387, 293	12. 65	55, 518, 339	77. 64	23. 55
Netherlands	72, 850	12. 10	882, 262	1. 29	9. 92
United Kingdom	58, 451	11. 02	644, 222	1. 03	(25. 83)
Poland	124, 850	10. 97	1, 369, 426	2. 21	2. 54
East Germany	78, 320	10. 22	800, 148	1, 39	(2. 13)
Japan	68, 305	11. 62	793, 923	1, 21	(11. 75)
All others	61, 126	12. 01	734, 392	1. 08	75. 61
Total, raw imports	5, 650, 929	12. 88	72, 769, 148	100	16. 37
Dressed imports	24, 045	12. 00	[1] 288, 540	....	(8. 05)
Total, imports	5, 674, 974	12. 87	73, 057, 688	....	16. 24
Compare 1965	4, 882, 317	13. 16	64, 375, 729	....	....
Increase	792, 657	....	[2] 8, 393, 419	....	16. 24

[1] Estimated.

[2] Price declined $0.29 or 2.2 percent.

Source: U.S. Department of Commerce.

FIGURE 7

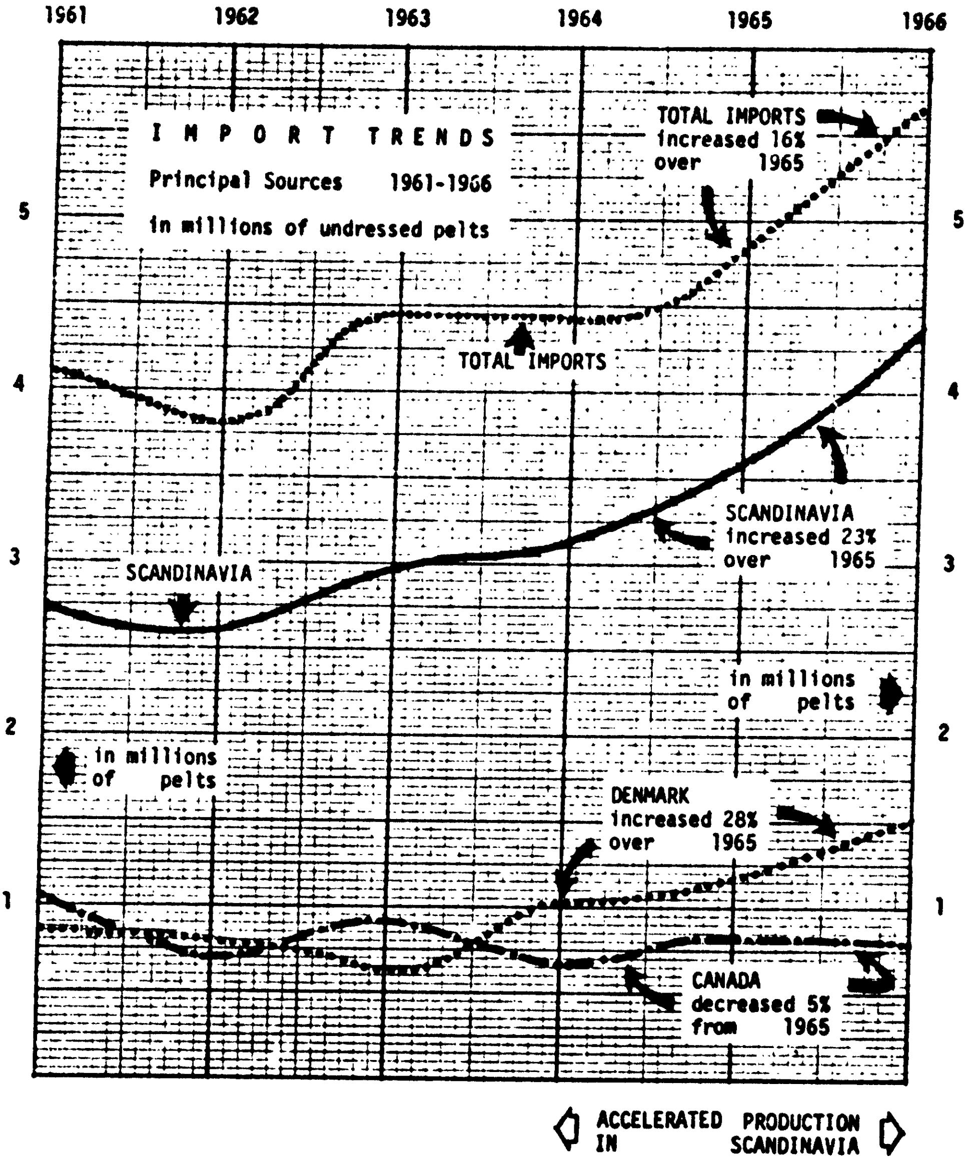

1961
1962
1963
1964
1965
1966
IMPORT TRENDS
Principal Sources 1961-1966
in millions of undressed pelts
TOTAL IMPORTS increased 16% over 1965
TOTAL IMPORTS
SCANDINAVIA
SCANDINAVIA increased 23% over 1965
in millions of pelts
in millions of pelts
DENMARK increased 28% over 1965
CANADA decreased 5% from 1965
5
4
3
2
1
5
4
3
2
1
ACCELERATED PRODUCTION IN SCANDINAVIA

FIGURE 8.—TOTAL RAW MINK IMPORTS INTO THE UNITED STATES 1964-66, 3 CALENDAR YEARS COMPARED

Imports from—	1964		1965		1966	
	Number of units	Average value	Number of units	Average value	Number of units	Average value
Canada	675, 325	$15. 20	846, 984	$15. 63	794, 734	$15. 04
Scandinavia	3, 143, 951	14. 14	3, 551, 023	12. 89	4, 387, 293	12. 65
Netherlands	73, 868	12. 55	65, 366	11. 44	72, 850	12. 11
United Kingdom	74, 972	12. 22	78, 804	10. 87	58, 451	11. 02
Poland	145, 230	12. 78	120, 756	10. 27	124, 850	10. 97
Japan	86, 692	11. 44	77, 403	11. 83	68, 305	11. 62
All others	163, 845	12. 45	34, 807	9. 82	139, 446	11. 00
Total	4, 363, 883	14. 08	4, 856, 167	13. 16	5, 650, 929	12. 88

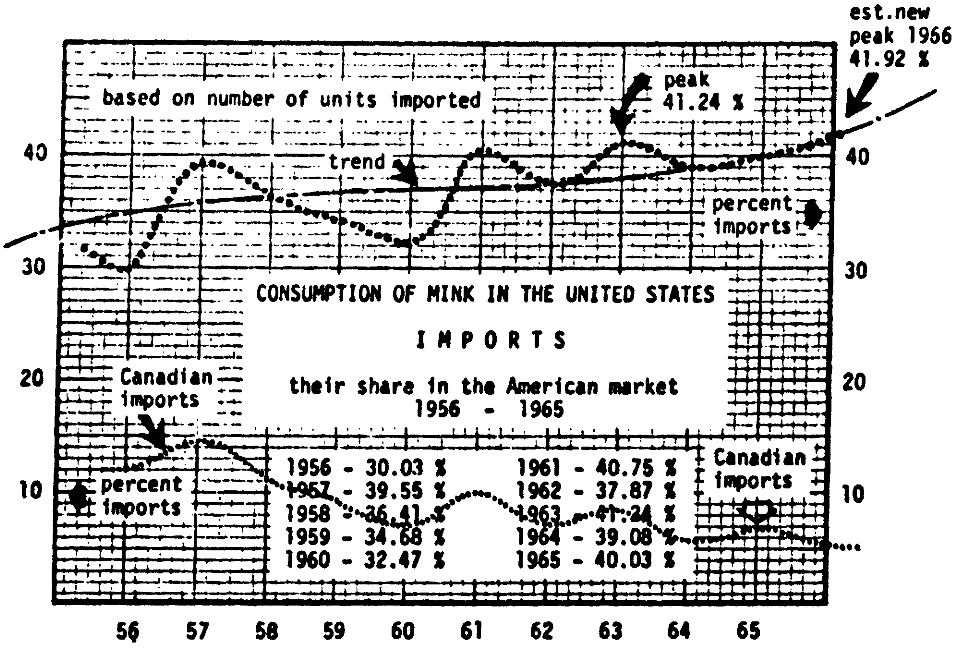
Note: Curves showing import trends taken from the above figures, from principal sources, are set forth on fig. 7, preceding. Volume is traced across the chart for a 3-year period and related to average pelt value.

Source: Official publications of the U.S. Department of Commerce, and compiled by the National Board of Fur Farm Organizations, Inc.

FIGURE 10

THE INCREASING "BITE" OF IMPORTS INTO THE DOMESTIC MARKET

PROVISIONAL ESTIMATES



The curve above is built from a computation of apparent annual consumption of mink in the United States, found later in this report, and based upon import and export figures supplied by the U.S. Department of Commerce, as worked against annual ranch census figures of the National Board.

In arriving at annual consumption, the following formula is used: list total ranch and wild mink production, subtract total exports for net U.S.A. production, then add total imports.

The lion's share of this "bite" is taken progressively more by the Scandinavian producers, and progressively less by Canadian producers. Canada's share, illustrated by the curve across the bottom of the graph, is based on imports only, but the shape of the curve is similar when adjustments are made for exports to Canada.

FIGURE 11.—GROWTH OF THE AMERICAN MARKET BY CROP YEARS

CONSUMPTION OF MINK PELTS, IMPORTED AND DOMESTIC PERCENTAGES COMPARED, 1956-66

Year	U.S.A. production				American market mix				Consumption in United States		Year
	Ranch	Wild catch	Total	Less exports	Net U.S.A. production	Average auction price	Plus total imports	Average value of imports	Total	Percent imports	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1956	4,417,000	349,000	4,766,000	421,000	4,345,000	$19.54	1,865,000	$16.28	6,210,000	30.03	1956
1957	4,515,000	399,000	4,914,000	692,000	4,222,000	19.38	2,763,000	13.28	6,985,000	39.55	1957
1958	5,078,000	322,000	5,400,000	875,000	4,525,000	20.96	2,591,000	15.97	7,116,000	36.41	1958
1959	5,703,000	372,500	6,075,500	849,000	5,226,500	21.48	2,775,000	16.99	8,001,500	34.68	1959
1960	6,445,000	355,000	6,800,000	882,000	5,918,000	16.41	2,846,000	15.62	8,764,000	32.47	1960
1961	6,727,000	297,000	7,024,000	1,018,000	6,006,000	18.11	4,131,000	11.83	10,137,000	40.75	1961
1962	6,951,000	300,500	7,251,500	976,000	6,725,500	16.66	3,825,000	13.51	10,100,500	37.87	1962
1963	7,077,000	366,000	7,443,000	1,088,000	6,355,000	18.08	4,460,000	13.86	10,815,000	41.24	1963
1964	7,401,000	317,000	7,831,000	901,000	6,930,000	17.57	4,445,000	14.03	11,375,000	39.08	1964
1965	8,225,000	287,000	8,512,000	1,200,000	7,312,000	19.48	4,882,000	13.16	12,194,000	40.03	1965
1966	8,700,000	287,000	8,987,000	1,124,000	7,863,000	—14.00	5,675,000	12.87	13,538,000	41.92	1966

Sources: The totals listed in col. 2, representing total ranch production, are based on ranch census cards submitted to the National Board office each year by a majority of the mink ranchers of the United States.

The figures in col. 3 are drawn from annual publications of the Fish and Wildlife Service, Department of Interior.

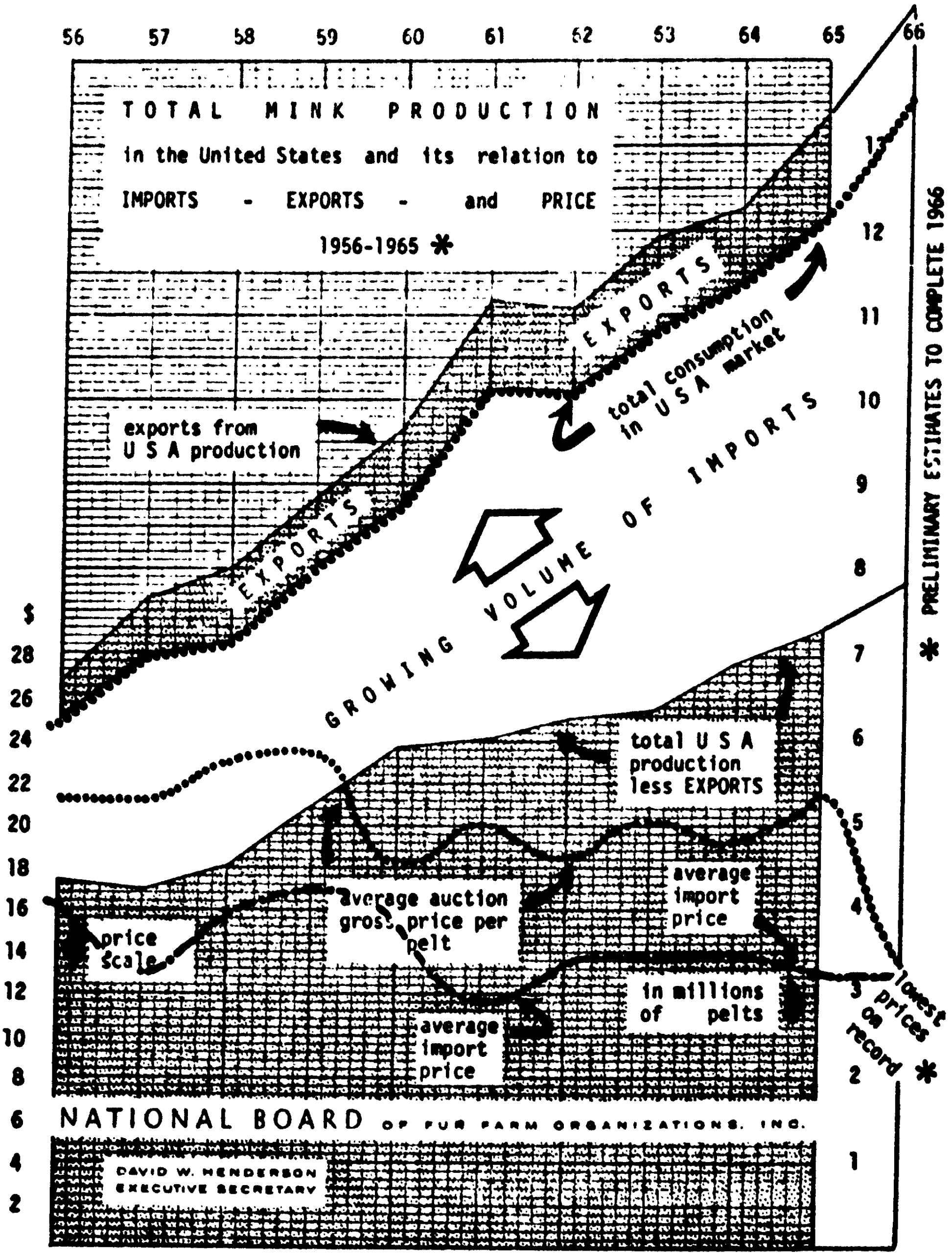
Figures in cols. 5, 7, 8, and 9 are based directly on import and export reports of the Department of Commerce.

Ranch production totals for crop year 1966 are tentative estimates only so that all totals for that year are subject to correction at the point where firm figures become available. The overall gross auction price, shown at minus $14 may well drop considerably below that figure before all low ends of the current crop are finally sold.

The consumption of mink in the United States, based on the figures above, appears to double roughly every 10 years, due in no small measure to the publicity budgets of the marketing associa- tions of EMBA, UMPA and GLMA, whose aggregate annual expenditures have totalled more than $1.25 million in the past 10 or 12 seasons. Without such a boost the mink market certainly would have remained static, and would not have offered foreign production the rich target for exploitation. "Free riding" foreign production has now thoughtlessly expanded beyond all reasonable economic levels, without having provided the money for extra consumer demand, without which the market cannot remain buoyant.

Continuously since 1959 price levels in the American market have been aggravated by excessive quantities of cheap foreign imports which have been absorbed largely by the trimming trades.

FIGURE 12


56
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TOTAL MINK PRODUCTION
in the United States and its relation to
IMPORTS - EXPORTS - and PRICE
1956-1965 *
exports from
U S A production
EXPORTS
EXPORTS
total consumption
in U S A market
GROWING VOLUME OF IMPORTS
total U S A
production
less EXPORTS
average
import
price
average auction
gross price per
pelt
price
scale
average
import
price
in millions
of pelts
lowest
prices
on
record *
* PRELIMINARY ESTIMATES TO COMPLETE 1966
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NATIONAL BOARD OF FUR FARM ORGANIZATIONS, INC.
DAVID W. HENDERSON
EXECUTIVE SECRETARY

Senator BENNETT. The next witness is Mr. G. Wedell, president of the Danish American Trade Council.

Mr. Wedell, we are very happy to hear you present the other side of the story. I am sure that that is why you are here.

STATEMENT OF GUSTAVE WEDELL, PRESIDENT, DANISH AMERICAN TRADE COUNCIL, INC.; ACCOMPANIED BY THOMAS D. BLAKE, AND KNUT SORENSEN, SECRETARY, DANISH AMERICAN TRADE COUNCIL, INC.

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

Senator BENNETT. You have not supplied the committee with copies of the statement; is that correct?

Mr. WEDELL. Yes, sir; I have.

Senator BENNETT. You have?

Mr. BLAKE. Yes, sir; I delivered it myself.

Senator BENNETT. Proceed with the statement. We will not hold you up while they try to find the copies.

Go ahead, Mr. Wedell.

Mr. WEDELL. Thank you.

Mr. Chairman, my name is Gustave Wedell. I am president of the Danish American Trade Council, Inc., which is an American corporation, 665 Fifth Avenue, New York, N.Y. The council's membership consists of leading United States and Danish firms and individuals who are striving to encourage and promote the two-way street of trade between the United States and Denmark.

Trade developments between the two countries have been markedly successful as the combined exports and imports of the two nations have increased from $258.9 million in 1959 to $420 million in 1966. In every year the trade balance has been in favor of the United States to the tune of $32.5 million in 1959, increasing to $45.3 million in 1966. However, for the first half of the year of 1967, the trade balance in favor of the United States is $47 million, that is, already more than the favorable balance in all of 1966, and with 6 more months to go.

Denmark has few things to export when it comes to the United States, and most of them are agricultural products, and all of them for trade with the United States of America. Three major agricultural items of farm products, if you prefer them, make up 60 percent of our exports to the United States in 1966, this being canned products, that is, canned ham, or canned ham products, dairy products, and mink skins.

It might interest the committee, Mr. Chairman, that I mention that 42 percent represented ham products, 5.5 percent dairy products, and 11.5 percent mink skins. In turn, Denmark purchased in the United States steadily increasing amounts of agricultural products, such as foodstuffs and grain, and, in addition, machinery, electronic equipment, commercial aircraft, military aircraft and other military equipment for the Danish NATO forces, all of which supplies, as is well known, Denmark is now paying for in cash. These military items alone amount to tens of millions of dollars per year.

As stated before, international trade is a two-way street. Any impediment to the flow of goods results in a diminution of the trade flow in both directions. It is as simple as that.

Denmark needs dollars to make her purchases in the Unite.l States. Denmark gets these dollars by selling her products to the United States. If the United States dams the flow of Danish goods by enacting quota systems, Denmark will sell the United States less goods, will receive less dollars and will spend less dollars buying U.S. goods. Trade dollars come back to the United States as a constant, and in recent years, increasing source of income to the entire U.S. economy. A throttle on the access to the trade dollars is bound to have a bad effect on the United States, but a very severe effect on Danish economic life, and we are your best customer.

The mere possibility of the enactment of quota legislation now before this committee has a debilitating effect on the Danish-American exporter and importer. For the past 10 to 15 years Danish exporters and American importers have spent considerable funds advertising and promoting Danish products in the American market and American exporters and Danish importers have done the same in Denmark. Now, however, with the possibility of roadblocks to be thrown up by this proposed legislation, able businessmen on both sides must begin to consider retrenchment in current expenditures in order to take care of a possible decline in future business. After all, if the bulk of Danish export to the United States is facing jeopardy, Denmark could be forced to revise their trade policy by sheer necessity, and this is not a threat, it is not retaliation. It is more probable that Denmark could not retaliate anyway. We might not like it, but we would be forced to do so.

In the case of Denmark, it is difficult to see with what logic the new legislation is being proposed, when one considers the fact that the United States of America is selling 30 percent more to Denmark than Denmark is selling to the United States. The mere prospect of an import quota on Danish agricultural products is made further ironical and, if I may add, unreasonable, when bearing in mind the U.S. own export to Denmark of agricultural products such as oil-bearing seeds, including soy beans, grain and grain products, feed concentrates, tobacco, rice, as well as animal and vegetable raw products—products which are raised in most of the States whose Senators have proposed quota bills.

Senator BENNETT. Mr. Wedell, I hope you will pardon me if I interrupt you at this point. I have got to leave in a minute because I have another committee, from which I may not be absent, and I have one question that I would like to ask you before I leave, and then Senator Curtis will take my place as chairman, as acting chairman, until a member of the majority comes in. We have been told by Mr. Westwood that the imports represent between 40 and 43 percent of our American market for mink. Can you tell us what percentage of the Danish mink production is exported to the United States?

Mr. WEDELL. Well——

Senator BENNETT. If you do not have that here, can you supply it to the committee?

Mr. WEDELL. Senator, may I give the dollar amount because then we can figure it out. For 1966, I have a dollar amount, skin or minks, that is raw skins or minks, amounted to $21.4 million of Denmark's total exports to the United States. Denmark's total exports that year to the United States——

Senator BENNETT. I do not mean that. I am trying to get the figure that represents the percentage of your total mink production that was exported to the United States, not the percentage of the mink production to your total exports.

Mr. WEDELL. I understand, Senator. I am sorry to say I cannot now reply to that, but a 22-page—or 20-page, rather—report that has been filed with the committee—it will be filed by Mr. James R. Sharp, who is counsel for the American Fur Merchants Association, with all covering facts.

Senator BENNETT. You think that figure would be in that report?

Mr. WEDELL. I believe it is; if not we will submit it.

(The statement referred to above follows Mr. Wedell's remarks.)

Senator BENNETT. I would appreciate it very much because I think we need it for a comparison between the two statements. Also, I think it important for the record that we should have the name of the gentleman who is sitting on your left.

Mr. BLAKE. My name is Thomas D. Blake, B-l-a-k-e. I am associated with Mr. James R. Sh rp. I am not a lawyer.

Senator BENNETT. Now, will you identify Mr. Sharp, since you mentioned him.

Mr. BLAKE. I beg your pardon, sir. James R. Sharp is a lawyer at 1108 16th Street, Washington, and he is the counsel for the American Fur Merchants Association of New York City.

Senator BENNETT. Thank you very much.

Mr. BLAKE. Mr. Sharp is filing his statement tomorrow.

Senator BENNETT. That is fine. I am glad to get you identified for the record.

I hate to run, but I am not always the master of my own fate these days. I am sorry. I will read the rest of your statement, even if I won't be able to hear it.

Mr. WEDELL. I would appreciate it.

Senator CURTIS (presiding). You may proceed.

Mr. WEDELL. Thank you.

And, Mr. Chairman, in the case of Denmark, this is not a matter of unfair competition and price cutting. By and large, this is a matter of high quality Danish products fetching higher prices and justifiably so. A further trade handicap, however, as proposed by these quota bills is bound to kill a happy commercial relationship to the advantage of no one because Danish exports will simply price themselves out of the market.

The advocaters of import import restrictions in the United States must realize that the question of introduction of such restrictions on a string of important commodity groups are not merely temporary safeguards for this or that narrow branch of industry, but can in principle contain a breach with the previous fundamental basis of international trade during the postwar years.

These advocaters will have to ask themselves the question whether broadly speaking the United States will be well served by leading the way in a "reversal" of the laboriously adopted principle of free trade. If this is what U.S. trade and industry want and get, the relapse to restrictive import policy will leave its mark on other countries. And in such case, U.S. exports will undoubtedly shortly be faced with obstructions and quota arrangements in other countries, which will neither be in the interest of American exporters nor of international trade collaboration.

It will be no less than tragic if the United States should revert to the import restrictions of the thirties which caused such immense harm to international trade. The British economist, John Robinson, described that policy as a "beggar-my-neighbor policy."

Has the United States forgotten that during the Marshall aid 20-odd years ago, its spokesmen urged the Danish people to work harder, to work longer, and to produce more, in order also to take advantage of the U.S. market and thus recover and be able to stand on their own feet?

And has the United States forgotten the very recent vigorous Kennedy round negotiations which Denmark, among other countries, worked so hard to help make a success?

We hope not.

We urge that your committee, Mr. Chairman, reject the idea of fixed quotas such as are here proposed and remain faithful to the principle of free trade as represented by the Kennedy round which this committee authorized some years ago. By so doing, you can do much to maintain the happy trade relations which indeed now exist between Denmark and the United States, and always have.

By so doing, American agriculture and American industry will not have to suffer should Denmark and its European neighbors, through no fault of their own, be forced to withdraw the trading advantages which they have granted U.S. products under the Kennedy round.

Mr. Chairman, may I just conclude by pointing out that when I said the agricultural exports to Denmark are a very important thing to Denmark because it is practically the only thing we can sell over here, then Denmark must look on minks as a lifeblood for their dollar earnings, and with the United States selling 30 percent more of their merchandise to Denmark than Denmark is able to sell to the United States, I do think that most people in Denmark would be unable to understand if they are being restricted on the mink skins, or the other products I mentioned.

As a matter of fact, most people in Denmark, since 1951, when quotas were put on a certain type of Danish cheese, have been in very much hope that someday bills will be introduced in the Congress proposing complete elimination of any quota on Danish cheese.

So to give the Danes a chance to try to make up some of the dollar deficits which now exist in their trade with the United States in relation to the U.S. exports to Denmark, we hope that will be done.

Thank you very much for giving me the opportunity to appear here today.

Senator CURTIS. I want to ask you a few questions. What Danish concerns are members of the Danish American Trade Council, Inc., of 665 Fifth Avenue, New York?

Mr. WEDELL. Well, to start with, American firms mostly that have been doing business with Denmark many, many years. You are speaking about exporting to Denmark?

Senator CURTIS. What Danish firms are members of that council?

Mr. WEDELL. What Danish firms are members? The Danish firms which operate as exporters of merchandise to the United States exporting to Denmark, and also members who are importers here and imports of merchandise from Denmark.

Senator CURTIS. Yes. But I want to know the names of the Danish companies that are members of this trade council.

Mr. WEDELL. The members—well, I have a member list here that I am sure, Mr. Chairman, you would not want me to—for me to read the number of members, but I can deliver that for your guidance. I have a membership book of all the members that are stated in that book.

Senator CURTIS. All right, you may submit that. It will not be reproduced in the record, but it will be here for reference by the committee.

Mr. WEDELL. I must have left that in my h tel room.

Senator CURTIS. You may send that in.

(The above referred to was received and ma.e a part of the official files of the committee.)

Senator CURTIS. You understand, of course that these bills do not suggest the shutting off of all imports into the United States of products which they cover, do you not?

Mr. WEDELL. Yes, sir.

Senator CURTIS. Is Denmark a member of the EEC?

Mr. WEDELL. Denmark is a member now of the outer market.

Senator CURTIS. The European Economic Community; they are?

Mr. WEDELL. They are not a member of the Common Market. They are a member of the outer market, the outer seven market.

Senator CURTIS. Now, the other countries that do belong to the EEC have an export subsidy on ham, $48.50 per hundred kilos. This amounts to about 50 cents for a 2-pound can. Has that cut down Denmark's export of ham to the United States?

Mr. WEDELL. Mr. Chairman, I have an aide here sitting among the audience named Sorensen. I know he could answer you.

Senator CURTIS. All right. Will you identify yourself and answer?

Mr. WEDELL. He is secretary of the Danish-American Trade Council.

Mr. SORENSEN. My name is Knut Sorensen.

I do not remember the up-to-date export figures from Denmark or from Holland to the United States. Offhand, I can say that the Danish export figure to the United States for the first 6 months of this year is lower than the same period last year. I believe that the Dutch export figure this year is comparable or higher than it was the same period last year.

Senator CURTIS. Well, we are faced with a situation here where other European countries are offering an export subsidy which amounts to about 50 cents for a 2-pound can of ham, which, if it is not detrimental to Denmark now, certainly will be. This is nothing set up by the United States. In fact, it is not favorable to the United States, and I wonder if Denmark was objecting to it and, if so, where did you lodge your objection?

Mr. SORENSEN. I am sorry, I am not able to answer the question.

Mr. WEDELL. Mr. Chairman, we will submit to the committee that information and a proper answer to your question.

(The following letter was subsequently received by the committee:)

SHARP, SOLTER & HUTCHISON,
Washington, D.C., October 20, 1967.

Hon. RUSSELL LONG,
Chairman, Finance Committee of the Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: I accompanied Mr. Gustave Wedell, President of the Danish-American Trade Council. Inc., 665 Fifth Avenue, New York, N.Y., when he testified before your Committee on October 18, 1967 during your hearings on import quota legislation.

Mr. Wedell was asked to furnish additional information to the Committee, and, because of the time element involved, is unable to write you himself. He has, however, furnished me with the information desired and I am transmitting it to you.

Mr. Wedell was asked to give the names of the members of his Council. I am enclosing five (5) copies of the 1967 Directory of Membership of the Danish American Trade Council, Inc.

(*The above referred to was made a part of the official files of the committee.*)

Mr. Wedell was asked to furnish the percentage of the Danish mink fur skin production which is exported to the U.S. Here are the annual figures for 1962-1966, production, exports to the U.S. and the percentage which these exports bear to Danish production:

Year	Production in skins	Exports to United States in skins	Percentage of exports United States to production
1966	3,336,000	1,134,000	34
1965	2,912,000	911,000	31
1964	2,355,000	764,000	32
1963	1,836,000	739,000	40
1962	1,437,000	750,000	50

Source: Board of the Scandinavian Fur Farm Organizations and the Statistical Department, Denmark.

Mr. Wedell was asked the following two questions by Senator Curtis:

"Now the other countries that do belong to the EEC have an export subsidy on ham, $48.50 per 100 kilos. This amounts to about 50¢ for a 2-pound can. Has that cut down Denmark's export of ham to the United States?"

"Well, we are faced with a situation here where other European countries are offering an export subsidy which amounts to about 50¢ for a 2-pound can of ham, which, if it is not detrimental to Denmark now, certainly will be. This is nothing set up by the United States. In fact, it is not favorable to the United States, and I wonder if Denmark was objecting to it and, if so, where did you lodge your objections?"

Mr. Wedell states that it is difficult to evaluate whether the alleged subsidy has cut Denmark's exports of canned hams and shoulders to the United States. The U.S. Department of Commerce figures for the first six months of 1967 compared with the first six months of 1966 show a decline of about 8 million pounds (48.7 million pounds in 1966 versus 40.8 million pounds in 1967). At the same time Dutch exports of canned hams and shoulders for the first six months of 1967 were up 1.2 million pounds (32.9 million pounds in 1966 versus 34.1 million pounds in 1967). The Danish decline may have been due to factors other than the alleged subsidy. To Mr. Wedell's knowledge no objection to the alleged subsidy has been lodged.

The Committee was informed that it was believed that there was no Danish Government control similar to the U.S. farm subsidy program. Mr. Wedell states that it is a fact that there is no such Danish Government control quantity-wise on farm products.

I trust this gives you all the information your Committee requested. On behalf of Mr. Wedell and myself, I want to thank the Committee for its courteous treatment of us.

Very truly yours,

THOMAS D. BLAKE.

Senator CURTIS. Now, another question. What does Denmark import from the United States which they can produce themselves?

Mr. WEDELL. Well, we do produce a lot, ourselves, in Denmark of industrial products. But when it comes to certain machinery like electronic equipment or when it comes to a commercial airplane for comes to weaponry like military aircraft, and so on, we just do not produce them. If we produce it, it just is not good enough for that purpose. There are many other things that we have to import from the United States, I grant you, but there is no doubt about it that if we do not have the money to pay for it, then Denmark will have to go shopping somewhere else, and whatever that amounts to, that depends on what adjustments we will have in our dollar earnings.

So it is difficult to say what we could do without it, because we might do without a lot if we make more favorable trading agreements elsewhere. But this is a natural pattern of trade that goes on between the United States and Denmark, and if I may be permitted to say, a very good trade to the United States, because it is selling 30 percent more to the Danes than the Danes are able to sell here, including the minks.

Senator CURTIS. In Denmark, are there any restrictions on agricultural production imposed by the Government?

Mr. SORENSEN. I believe there are only veterinary regulations like you also have in this country when it comes to imported minks.

Senator CURTIS. No; no. What I mean, is production itself restricted? Here we have a farm program that is based upon restriction. The American farmers' individual farm plant is, quite a portion of it is, idle by Government edict.

Mr. SORENSEN. I do not believe that there are restrictions in Denmark in that respect, anyway similar to what you have in this country.

Senator CURTIS. That is all. I would like to go on, but we have a long list of witnesses. I thank you gentlemen for your contribution.

Mr. WEDELL. Thank you, Mr. Chairman.

(Mr. Sharp's statement, referred to previously by Mr. Wedell, follows:)

STATEMENT TO THE FINANCE COMMITTEE OF THE SENATE IN OPPOSITION TO THE LEGISLATION ESTABLISHING A QUOTA ON THE IMPORTATION OF RAW MINK SKINS

(Submitted by James R. Sharp, Washington, D.C., on Behalf of the American Fur Merchants Association, Inc., New York, N.Y.)

SUMMARY

Mr. Sharp states that imports of raw mink skins are not responsible for a temporary decline in prices of fur skins in the U.S. He points out that the real reason for the wide swings in the prices of mink skins is due primarily to the fact that the market is dominated by other factors, mainly the fashion whims of American women.

Mr. Sharp submitted with his statement a Fact Sheet on the U.S. and foreign mink skin industry. This fact sheet carries its own summary.

OCTOBER 20, 1967.

Hon. RUSSELL LONG,
Chairman, Senate Committee on Finance,
The Capitol, Washington, D.C.

DEAR MR. CHAIRMAN: I would like to submit the following statement to your Committee in connection with your hearings of October 18, 19, and 20, 1967, on quota legislation on a wide variety of products.

My name is James R. Sharp. I am an attorney with offices at 1108 16th Street, N.W., Washington. In these hearings I appear as a lawyer with many years experience in the international trade field, but particularly as counsel for American Fur Merchants Association of New York City, the largest association of fur dealers in the United States.

For many years I have represented firms, organizations and individuals in the international trade field. The problems ranged from customs, appeals appearances before the Treasury Department, the Tariff Commission, the Ways and Means Committee and your distinguished Committee. The products run the gamut from hardboard to plywood, to steel to carpets, to clothespins to raw mink skins. I have always been on the side of the importer, the man who has to battle the attempts by the Government on the legislative side and on the executive side, to impose tariffs, quotas or other restrictions on foreign imports. And being on the side of the U.S. importer means that I have been and am on the side of the U.S. consumer who, under a free unfettered trade system, enjoys the products of all the world at a reasonable price.

PAST HISTORY OF CLAIMS OF INJURY FROM IMPORTS CONSISTENTLY UNFOUNDED

My experience indicates that it is almost a consistent pattern of repetitive action whenever an internationally produced product suffers a price decline. Immediately the U.S. producer claims that the foreign producer is "dumping" his product in the U.S., is producing his product with cheap labor or cheap material and the poor U.S. producer is being forced to the wall because of foreign imports. The only thing that will save him is protection by Uncle Sam, either by an embargo, or quota or a raising of tariffs. The greater the protective wall, the better so far as he is concerned.

Invariably, as in all markets, after the fall of prices giving impetus to the cry for legislative or administrative relief, prices pick up, profits rise and the U.S. producer, threatened with death, thrives again mightily. No cat ever had so many lives.

Take the raw mink skin ranchers in the U.S. In 1959 they invoked an escape clause action before the Tariff Commission, claiming injury from imports and requesting an absolute quota. The Tariff Commission turned down this application after conducting Open Hearings and an extensive investigation of the entire problem of mink producers here and abroad, mink marketing systems, the history of the growth of the mink industry, and other matters germane to the issue.

From this exhaustive study, the Tariff Commission concluded that increases in imports resulting from the duty-free status of mink skins as frozen in the GATT Agreement were not injuring or threatening injury to the domestic producers. In 1959 when this finding was made, the test used by the TariffCommission for injury findings required only that imports had contributed substantially to the serious injury or danger thereof. This was a much milder test than the more strict test which became applicable with the adoption of the Trade Expansion Act of 1962 which requires that imports be the *major contributing factor* to injury.

PAST TRENDS WHICH INDICATED NO NEED FOR RELIEF ARE CONTINUING

In denying relief in 1959, the Commission stated that "the trend of domestic production (of mink) has been rising; that in terms of volume the increase in domestic production has been greater than the increase in imports."

That was the situation in 1959. What is it in 1967? Here are the figures for 1961–1966, as reported by Assistant Secretary of State Macomber on May 31, 1967:

U.S. RAW MINK STATISTICS—1961-66

[Quantity in million skins]

Year	Production	Imports	Exports	Consumption	Imports as percent of consumption
1961	6.4	4.1	0.8	9.5	43
1962	6.7	3.8	.8	9.7	40
1963	7.0	4.5	.8	10.7	42
1964	7.1	4.4	.7	10.8	41
1965	7.5	4.9	.9	11.5	43
1966	8.2	5.7	1.1	12.8	44

A further analysis of the State Department's figures is quite interesting. Production increased from 6,400,000 skins in 1961 to 8,200,000 in 1966, an increase of 1,800,000 skins. Each year was higher than the previous year. Imports increased in the same period from 4,100,000 skins to 5,700,000 skins, an increase of 1,600,000. Thus the same condition exists today as in 1959; the trend of domestic production has been rising and, *in terms of volume* the increase in domestic production has been greater than the increase in imports (1,800,000 production increase vs. 1,600,000 increase in imports).

In support of the legislative efforts to obtain quantitative import quotas, and the administrative effort with the Tariff Commission in 1959, the domestic mink ranchers have on each occasion claimed that in a short time their industry would be bankrupt and destroyed unless relief was forthcoming. Yet the domestic mink pelt producing industry has grown and--except for short-lived price setbacks, a phenomenon normal in any business--has always proven quite profitable. David Henderson, Executive Secretary of the National Board of Fur Farm Organizations reported in his recent Economic Report issued in August, 1967, that U.S. production in 1966, just nine years after the Tariff Commission decision, was 8¼ million and in 1967, ten years later, would be close to 9 million, a ten-year increase of *nearly 100%*. The Emba Mink Breeders Association announced at its April, 1966, meeting in Milwaukee that the 1,978,079 pelts sold through its marketing auspices through February 1966, averaged $21.07 per pelt up from $17.49 in 1965 and from $17.27 in 1964, this despite an increase in domestic production of mink skins from 1965 to 1966 of 700,000 pelts or over 10% and an increase in imports in 1965 to 1966 of 800,000 pelts, or approximately 16%.

Mr. Richard E. Westwood, of the National Board of Fur Farm Organizations, Inc., who appeared before this Committee on Wednesday made another highly emotional appeal for relief, claiming immediate need for legislative quotas if his industry was to survive. Mr. Westwood said that his group was concerned not with rate of profit but with "right to survival." This is the same cry his organization made in 1959. But, as this Committee must know, *dying* industries are generally not *growing* industries. Yet, Mr. Westwood's industry has increased its production from 1958, the year before the last Tariff Commission hearings were held, from 4,837,000 pelts to 8,987,000 in 1966, just eight years later. This is an increase of about 86% in that short eight year period. Average pelt prices in 1958 were $19.01 per pelt. In the selling season 1965/1966 they were $19.48 per pelt. On that record could mink ranching really be an uneconomic losing proposition? The low prices of the past selling season are now on the way up. Recent auctions in this country and abroad show the price trend is up—10 to 15% over the earlier auctions this year. The earlier auctions were what provided stimulus to the cries for immediate "help" by the domestic mink ranches.

Mink pelts, I can assure you, were not the only luxury commodities which in the economic stagnation we experienced in 1967, dropped in price. And now that the economy is again surging forward—forward at a rate which brings fears of inflation—mink pelt prices are not the only prices which are dramatically rising from the lows experienced last year.

PRICE FALL IN 1966-67, RANCHERS CRY

Mink prices and fur prices and prices of a lot of luxury items did fall in late 1966 and 1967. They have fallen all other the world, not just in the U.S. But, imports are down, those from Scandinavia off 17% in the first 8 months of 1966 over 1967 and off nearly 10% from all countries. It can't be the imports that caused the price drop. What could it be?

WOMEN'S FASHIONS THE DETERMINING FACTOR IN PRICE SWINGS IN FUR MARKET

Furs are not necessities of life like wheat, textiles, milk or petroleum. Furs, and particularly mink, are fashion products and in the final analysis are subject to the whims and constantly changing tastes of women, consequently demand can change radically from year to year. In addition to fashion, furs not being a necessity are highly sensitive to economic conditions and immediately react to an economic slow-down, or the fear that one is on the horizon. A study of fur prices reveals constant and substantial fluctuations. In 1966/67, the price decline in all furs was especially sharp due to a complication of factors:

(1) The general economic slow-down towards the end of 1966 in Europe, particularly in Germany, coincided with our own economic slow-down here in

America. These changes caused an immediate slackening of demand simultaneously in both Europe and in the United States with a consequent strong pressure or prices.

(2) At about the same time, mink dressing factories introduced a new revolutionary dressing process. The new process made it possible to buy a relatively modestly priced standard mink, the color of which became much darker after processing by the new method, and the value of which then became equivalent to a very expensive mink pelt.

As an example, an ordinary color mink which was bought for $20.00, after dressing, received the same value as a good color dark skin for which $50.00 was paid. It goes without saying that all goods took an immediate decline. Why should anybody pay $50.00 if the $20.00 skin, treated by the new process, would give him practically the same color?

To compound the confusion, the Federal Trade Commission ruled that mink dressed by this new process could be called "Natural". This ruling was subsequently amended twice and as a result, full confusion in the fur industry reigns today.

The above are two major reasons foi the unusually sharp decline in mink prices in 1966/67. Neither has anything to do with imports.

It is important to note that the prices of all furs declined—not just mink. Here are reports on some typical sales.

SOUTHWEST AFRICAN PERSIANS[1]

	July 1966	July 1967	Decline (percent)
Hudson's Bay Co	68/10–$9.64	47/5–$6.64	31.2
Anning, Chadwick	68/4–$9.56	50/8–$7.09	25.9
Eastwood & Holt, Ltd	64/6–$9.04	46/-–$6.44	28.8

RUSSIAN PERSIANS[2]

	July 1966	July 1967	Decline (percent)
Buchara	$6.75	$4.63	31.5
Turkmen	$6.86	$4.57	33.4
Kazakstan	$6.24	$4.21	32.5

ALASKA SEALS[3]

	April 1966	April 1967	Decline (percent)
Average	$127.48	$94.45	25.91

[1] Official London auction companies reports.

[2] Calculation based on (a) units in the July 1967 auction; and (b) actual prices realized in the July 1967 and 1966 auctions.

[3] Official figures supplied by Fouke Fur Co. (official seal processors for the U.S. Government).

In addition, both muskrats and foxes, American and Russian, declined 50% in price, 1967 over 1966

The case of Alaska seals is particularly significant. Here is a fur which is a monopoly of the U.S. Government and *there is no foreign competition*, hence no imports and yet Alaska seal prices declined nearly 26% in 1967 as compared with 1966, about the same price decline as the U.S. mink ranchers claim in 1967 for their product.

The facts simply do not support the claim that legislative relief is needed to limit imports of mink skins. The facts show that in 1966 when prices were delightfully high, imports were unusually high; that in 1967, when prices were low, imports declined measurably although domestic production went up; that the price decline experienced this year is not unusual in this trade, which heretofore has with frequency experienced price declines and increases of as much as 20 to 30% in a single year; changes attributable not to imports but instead to changing economic conditions and the whims of women's fashion.

Add to this the fact that almost the entire fur trade in the United States with the exception of the U.S. ranchers believe quotas on mink imports are highly undesirable. This is the belief of the brokers and dealers who are members of the American Fur Merchants Association which I represent, of the Fur Manufacturers Association, of the major fur processing organizations, of the fur trappers, of the fur finishers unions and of most of the major retailers of fur garments. The ranchers stand alone in their demands for Congressional action. The remainder of the U.S. fur industry—and the remainder is large in number although much less vocal than the ranchers, are flatly against it.

Finally, I should like to point out that restrictive quotas and other measures heretofore adopted in relation to fur products have been disastrous instead of helpful. Let me give you a couple of examples:

The American silver fox industry at one time was large and an annual production of 350,000 skins a year was reached in 1939, according to the Department of Interior Fish and Wildlife Service. Silver foxes were protected by a duty of 37½ percent. In 1939, at the height of its fashion demand, the fox ranchers succeeded in having Congress impose an import quota which limited the importation of foreign produced silver foxes to 100,000 skins per year. On top of this, in 1951, the ranchers succeeded in imposing an outright embargo on all foxes from the Soviet Union. The import quota, the duty and the Russian embargo are still on the books today and what is the unhappy result?

(a) Importation of silver foxes fell rapidly and is today practically zero.

(b) American yearly production of silver foxes is down to a few thousand skins.

(c) American consumption of silver foxes is down to zero.

Neither an embargo against the Russian foxes nor a general protective tariff against all other countries has helped the domestic silver fox industry. In the fur industry, *fashion* is the primary determining factor, and restrictions on the normal supply of any given fur, drive the manufacturing and dealing segments of the trade into other furs. The end result is almost always to the detriment of those who sought "protection." Many of the mink ranchers today are the sons and daughters of former silver fox ranchers, but the lesson seems to have been lost on them.

At the same time that the ranchers succeeded in imposing an outright embargo on Russian foxes, they also succeeded to embargo Russian muskrats. The embargo on muskrats is still on the books today and the unhappy result is:

(a) Importation of Russian muskrats went down to zero.

(b) Production of American muskrats steadily declined and was down to 4,305,096 skins in 1965, according to Field and Wildlife Service of the Department of Interior, a decline of 50% from 1951 when the embargo was imposed.

(c) American consumption of muskrats steadily declined and was down to only 228,067 skins in 1966, according to information supplied by American dressing factories.

(d) The bulk of the American crop of muskrats (95%) has to be marketed abroad, including Scandinavia, or by mink rancher definition "dumped in Europe."

These two examples show the uselessness of quotas in a fashion industry. Mink quotas would equally make no sense.

In the belief that it will be helpful to the Committee, I am attaching to this letter a recently prepared Fact Sheet on the U.S. and Foreign mink skin industry. The source of most of these facts is the Department of Commerce. The facts given in that paper support fully the statements I have made above as to the lack of need for quota legislation in this field. I thank you for the opportunity of submitting this statement

Facts on the U.S. and Foreign Raw Mink Skin Industry

(Prepared by: James R. Sharp, Washington, D.C., and Thomas D. Blake of Washington, D.C., for The American Fur Merchants Association, Inc., New York, N.Y., the Leading Fur Dealers Association in the United States. Consultant: Eugene Dreisin, Chairman, Foreign Trade Committee, American Fur Merchants Association—October 9, 1967)

1. CURRENT DEMAND FOR LEGISLATION LIMITING IMPORTATION OF RAW MINK

As of October 4, 1967, some 50 Representatives and 21 Senators had sponsored bills to establish a quota on the importation of mink skins. Except for two of the House bills, all bills are identical; they provide for the Secretary of Agriculture, before each calendar year, to make an estimate of the number of mink skins the United States will consume during that year. His decision cannot be appealed. Duty-free imports will be limited to 40 percent of this amount, the remainder will be subject to a duty of 50 percent ad valorem. Two of the House bills limit the duty-free imports to 30 percent of U.S. production, as estimated.

2. PRESSURE ON WHITE HOUSE FOR ADMINISTRATIVE ACTION

Simultaneously the domestic mink ranchers brought considerable pressure on the White House to take action in order to "save the domestic mink industry" The White House resisted these pressures, its position being clearly set forth in two letters from Mr. William M. Roth, Office of the Special Representative for Trade Negotiations, Executive Offices of the President. Both letters were addressed to Rep. H. C. Schadeberg (R., Wisc.), one of the strongest advocates of quota legislation.

The first letter, which appeared in the Congressional Record of June 12, 1967, read as follows:

"Your letter to the President of May 18, 1967, has been referred to this Office for further reply. In your letter, you urge that the President request the Tariff Commission, under section 332(g) of the Tariff Act of 1930, to make a study of imports of mink.

"I frankly do not believe that the President would consider requesting such a study of the Tariff Commission without considerably more information about the nature of the problem. I might add that under section 332(g) the Ways and Means Committee or the House of Representatives may ask the Tariff Commission to undertake such a study.

"In any case, however, we would be reluctant to consider the imposition of additional restrictions on imports of mink without a showing that such imports are causing or threatening serious economic injury to the domestic industry. This is especially true since the domestic industry already enjoys extraordinary protection through the total embargo on imports from the Soviet Union, which has been in effect since 1951. This embargo is provided for in headnote 4 of subpart B of part 5 of schedule 1 of the Tariff Schedules of the United States."

The second letter, which appeared in the Congressional Record of August 8, 1967, read as follows:

"Thank you for your letter of June 12 with further reference to the matter of mink imports.

"I assure you that my letter of June 8 should not be construed as indicating a lack of concern for the mink industry. However, without more information the Administration does not have a basis for a decision on the imposition of additional import restrictions. As I pointed out in my earlier letter, under section 332(g) of the Tariff Act of 1930, the Ways and Means Committee or the House of Representatives may ask the Tariff Commission to make a study of the problem.

"Any decision as to administrative relief for the mink industry would have to be made by the President himself on the basis of the best possible information. It has been suggested to us, for example, that the President use his authority under section 204 of the Agricultural Act of 1956, as amended, to negotiate agreements with foreign countries to limit their mink exports to the United States. We have carefully considered this suggestion and have concluded that more information would be needed in order to evaluate the advisability of using this procedure. It seems clear that other countries could not reasonably be expected to give serious consideration to agreeing to limit their mink exports to the United States in the absence of data demonstrating convincingly that it was necessary to curtail shipments of mink from foreign countries because of the situation in the domestic mink industry. For this reason, I believe the President would not be inclined to ask other countries to enter into negotiations unless there had been a showing, as a result of a careful investigation, that such agreement was necessary.

"As to the extraordinary protection which the mink industry has had since 1951, I can only point out that the provision which prohibits the importation of mink from the Soviet Union applies only to six other specified types of furs and to no other products whatsoever. For this reason, the protection which the mink industry has had for more than 15 years must be regarded as extraordinary.

"Since I wrote you earlier this month, we have learned from the American Embassy in Copenhagen that mink breeders in Denmark, Sweden, Norway and Finland, like their counterparts in the United States, are disturbed over the declining prices for their mink pelts and have decided to take drastic steps to counteract the downward trend. At a recent meeting in Stockholm, the association of mink breeders in the four Scandinavian countries agreed to reduce mink production by 30 percent.

"The Embassy reports that for Denmark alone this will mean that between 600,000 and 700,000 newborn mink cubs of the standard type will be killed during the coming months. It is planned that the destruction of mink cubs will continue until prices have been brought back to what the breeders regard as the normal level. According to the Embassy, the Scandinavian fur breeders consider that the present low price level is due to oversupply and, therefore, consider it reasonable to respond by reducing the supplies of mink pelts.

"The four Scandinavian countries are the major source of United States imports of mink. The 30-percent reduction in their mink production should therefore help relieve the downward pressure on mink prices in this country to the benefit of United States mink breeders."

3. PRESIDENT CALLS ON TARIFF COMMISSION TO REPORT ON MINK INDUSTRY

On August 29, 1967, the President of the United States exercised his authority under the Tariff Act of 1930 by requesting the United States Tariff Commission to conduct an investigation of the conditions of competition in the United States between domestic produced mink and imports of mink, requiring that the Tariff Commission report on all pertinent facts including, but not limited to, facts concerning U.S. consumption, production, imports, exports, prices, employment, financial returns of the domestic ranchers, and the effects of imports on domestic producers.

It is anticipated that the Commission will require from 5–6 months to make the comprehensive investigation required of it under the Presidential order. The events of the past have established that the best source of the required information would be an objective report of the fact-finding Tariff Commission.

The Tariff Commission has announced that as a part of its investigation, public hearings will be commenced December 5, 1967. Those concerned with the imposition of import restrictions on mink pelts should be prepared to present their views in the course of the Tariff Commission public hearings. The Tariff Commission, as usual, has invited the views of all interested parties and has requested that written views by organizations and persons who do not intend to make an appearance at the hearings, be submitted on or before December 5, 1967.

4. THE AMERICAN FUR MERCHANTS ASSOCIATION READY AND WILLING TO PRESENT FACTS TO THE COMMISSION

The American Fur Merchants Association, the leading fur dealers group in the United States, intends to cooperate fully with the Tariff Commission and will be prepared to present the following facts to the Commission, as well as any other pertinent data.

5. HISTORY OF EFFORTS BY DOMESTIC PRODUCERS FOR IMPORT LIMITATIONS

This is not the first time that attempts to obtain a quota on mink imports have been tried. In 1946, 1951, 1965 and 1966 bills were introduced in the Congress seeking absolute quota limitations on the import of mink skins. In early 1959, the U.S. mink ranchers filed an application with the U.S. Tariff Commission under the "escape clause" of the Trade Agreements Extension Act stating that they were threatened with injury from imported mink skins and requesting an absolute quota.

The Tariff Commission turned down this application after conducting Open Hearings and an extensive investigation of the entire problem of mink producers here and abroad, mink marketing systems, the history of the growth of the mink industry, and other matters germane to the issue.

From this exhaustive study, the Tariff Commission concluded that increases in imports resulting from the duty-free status of mink skins as frozen in the GATT Agreement were not injuring or threatening injury to the domestic producers.

6. PAST TRENDS WHICH INDICATED NO NEED FOR RELIEF ARE CONTINUING

In denying relief in 1959, the Commission stated that "the trend of domestic production (of mink) has been rising; that in terms of volume the increase in domestic production has been greater than the increase in imports."

That was the situation in 1959. What is it in 1967? Here are the figures for 1961–1966, as reported by Assistant Secretary of State Macomber on May 31, 1967:

U.S. RAW MINK STATISTICS—1961-66

[Quantity in million skins]

Year	Production	Imports	Exports	Consumption	Imports as percent of consumption
1961	6.4	4.1	0.8	9.5	43
1962	6.7	3.8	.8	9.7	40
1963	7.0	4.5	.8	10.7	42
1964	7.1	4.4	.7	10.8	41
1965	7.5	4.9	.9	11.5	43
1966	8.2	5.7	1.1	12.8	44

A further analysis of the State Department's figures is quite interesting. Production increased from 6,400,000 skins in 1961 to 8,200,000 in 1966, an increase of 1,800,000 skins. Each year was higher than the previous year. Imports increased in the same period from 4,100,000 skins to 5,700,000 skins, an increase of 1,600,000. Thus the same condition exists today as in 1959; the trend of domestic production has been rising and, *in terms of volume* the increase in domestic production has been greater than the increase in imports (1,800,000 production increase vs. 1,600,000 increase in imports).

In support of the legislative efforts to obtain quantitative import quotas, and the Administrative effort with the Tariff Commission in 1959, the domestic mink ranchers have on each occasion claimed that in a short time their industry would be bankrupt and destroyed unless relief was forthcoming. Yet the domestic mink pelt producing industry has grown and—except for short-lived price setbacks, a phenomenon normal in any business—has always proven quite profitable. David Henderson, Executive Secretary of the National Board of Fur Farm Organizations reported in his recent Economic Report issued in August, 1967, that U.S. production in 1966, just nine years later after the Tariff Commission decision, was 8¼ million and in 1967, ten years later, would be close to 9 million, a ten-year increase of *nearly 100%*. The Emba Mink Breeders Association announced at its April, 1966, meeting in Milwaukee that the 1,978,079 pelts sold through its marketing auspices through February 1966, averaged $21.07 per pelt up from $17.49 in 1965 and from $17.27 in 1964, this despite an increase in domestic production of mink skins from 1965 to 1966 of 700,000 pelts or over 10% and an increase in imports in 1965 to 1966 of 800,000 pelts, or approximately 16%.

7. WHAT HAS HAPPENED SINCE 1966? PRICES DOWN—U.S. PRODUCTION UP—IMPORTS DOWN

Prices Have Fallen.—According to the National Board's figures, prices which averaged $19.48 per pelt in 1965/66 have fallen to $14.28 thus far in 1966/67.

U.S. Production Up.—But, and this is important, U.S. production, according to National Board's figures, increased from 7.5 million pelts in crop year 1964, to 8.2 million in crop year 1965 and close to 9 million in crop year 1966.

Imports Down.—Scandinavian imports, December, 1966 through August, 1967, decreased by 560,000 pelts over the same period a year earlier, a decrease of 17%. All mink imports dropped almost 10% in the same period. Here are the official Department of Commerce figures for the first eight months of 1966/67:

	Raw mink imports from Scandinavia	Raw mink imports all countries
1st 8 months 1966	3,309,000	4,215,061
1st 8 months 1967	2,749,000	3,797,853
Decrease	560,000	417,208
Percent decrease	17	9.9

Thus, during the recent substantial price decline, we also had a decline in mink imports from all sources and a particularly substantial one from Scandinavia.

8. DOES A ONE YEAR RADICAL PRICE DECLINE ENTITLE AN INDUSTRY TO RELIEF FROM IMPORTS?

The answer is that obviously no such relief should be considered. Practically every industry in the United States suffers occasionally from cyclical changes. The mink producing industry is no different. Mink was in great demand in 1966; average prices rose sharply over the prior year and the crop produced in the United States was fully absorbed by both U.S. and foreign buyers. During the early part of this prosperous 1965/66 marketing season the following year's crop was produced (that is, the females were bred) in larger numbers than in the prior breeding season. As a result the 1966/67 crop was larger by 700,000 pelts than in the prior year. But the U.S. economy in the second part of 1966 eased up—a tight money market developed—all of which resulted in substantial slackening-off of demand for consumer goods—automobiles, appliances, homes, apartments, clothing—and of course fur and fur trimmed products including mink products. Simultaneously, most European countries experienced an economic slowdown and purchases of furs and other consumer goods (by West Germany particularly) from both U.S. sources and from Scandianvian sources, decreased substantially.

9. SCANDINAVIAN MINK IS NOT BEING DUMPED ON THE U.S. MARKET

U.S. mink ranchers claim that huge amounts of foreign mink skins have been "dumped" on the American market, resulting in a serious price decline in domestically produced mink.

There has been no "dumping" whatever definition of "dumping" may be used. To dump, according to the dictionary, is "to market goods in a foreign country at a price below that charged in the home country." Legally, dumping involves the sale to the United States at prices (FOB the foreign source) less than prices for the same quality, quantity, and type of goods sold to buyers for delivery in the exporting country and/or third countries. "Dumping" is a term that cannot be applied to the marketing of mink fur skin, for fur skins of all types enjoy an international market in the fur auction rooms in the fur producing countries of the world. Buyers from all over the world bid in free and open competition for the mink pelts. In January 1967, at Copenhagen alone, there were 296 buyers from more than 20 countries attending the auction.

No buyer is forced to buy anything; if the quality does not please him, or if the price is not right, he need not buy. However, if consumer demand exists as it has in the U.S., then a dealer will buy, confident that his purchase can be sold at a profit. American buyers compete for mink skins with buyers from all over the world, whether they are buying in the American, Scandinavian, British or Canadian sales. The same price and quality considerations guide American buyers whether they are in the New York or Scandinavian auction room, therefore they will pay the same price for Scandinavian mink that they will pay for comparable mink in New York, freight and other imponderables, taken into consideration.

Different prices for different buyers from different areas are not set. There is no possible way of "dumping" foreign mink skins in the U.S. in any sense of the word as long as the skins are sold at open public auctions.

10. THE UNITED STATES, BEING AN AFFLUENT SOCIETY, HAS A WIDE RANGE OF MINK CONSUMPTION

Different countries produce different types and qualities of mink; this is due to different climate, food and breeding habits. Different countries also have different consumer demands. This is due to social conditions and different distribution of wealth.

The U.S. is the largest consumer of mink skins, some 12,800,000 skins in 1966 alone. The U.S. produces some of the finest skins in the world and the luxury mink products manufactured in the United States are beyond compare. At the same time, the U.S. enjoys an affluent society stretching on down the economic ladder far greater than is the case in any other country. As a result, the U.S. can consume a large variety of qualities of mink, in capes, in coats, and more importantly in fur trimmed coats, jackets, sweaters, dresses and other garments.

Italy, on the other hand, produces little mink and while it enjoys a demand for high grade fashions at the upper level of the economic strata, it does not enjoy an in-depth affluent society. Hence, Italy buys the better grade skins in the world markets, making them into lovely garments for its rich citizens, but does not use the cheaper grades for trimming and low cost garments. *This pattern applies in varying degrees to all European countries.*

This difference between demands for mink by various countries is well exemplified in the following table:

TOTAL EXPORTS OF RAW MINK SKINS FROM SCANDINAVIA, 1962-66

Year	United States			Other countries		
	Number of pelts (thousands)	Total value (thousands)	Average value	Number of pelts (thousands)	Total value (thousands)	Average value
1966	3,876	$49,700	$12.83	3,627	$60,727	$16.74
1965	3,242	40,969	12.63	3,045	52,806	17.34
1964	2,746	39,277	14.30	2,189	38,326	17.51
1963	2,717	36,184	13.32	1,956	33,998	17.38
1962	2,378	32,082	13.40	1,686	28,825	17.10

Source: The Scandinavian Government statistical departments.

In 1966 the breakdown between countries (shown by the same source) was as follows:

Countries	Number	Percent of the total number	Average value	Averages
United States	3,875,514	51.6	$49,700,000	12.83
West Germany	1,267,310	16.9	20,449,725	16.14
England	867,538	11.6	12,554,649	14.47
Italy	688,459	9.2	14,329,793	20.81
France	153,988	2.1	2,713,037	17.62
Switzerland	127,609	1.7	2,454,712	19.24
Canada	242,101	3.2	3,524,690	14.56
Austria	36,151	.5	594,327	16.44
Benelux	46,347	.6	858,605	18.53
Other countries [1]	197,948	2.6	3,293,855	16.64

[1] Including inter-Scandinavian exports.

It will be noted that Italy received 9.2% of the total exports, at an average price of $20.81 per skin. The U.S., on the other hand, took 51.6% of the exports at an average price per pelt of $12.83. In fact, the three leading importers, next to the U.S. at 51.6%, were West Germany, England and Italy, whose combined share of the Scandinavian exports was 37.7%, yet in dollar value this amounted to over $47 million, nearly equal to the U.S.'s 51.6% value of $49.7 million. This clearly demonstrates that the low average price of the imported mink is due strictly to the demands of the American consumer for substantial quantity of the cheaper quality mink.

11. CLASSIFICATION AND GRADES OF MINK SKINS

Raw mink furs receive uniform grading before being offered for sale in auction rooms all over the world. The skins are graded by sex, by color, by size and by quality.

The females, which are smaller than males, bring a lower price than mates of the same quality and color. Standard mink skins are graded for color from dark shades which are most expensive, to the lighter shades. Mutation minks are graded for color from the light shades, which are the most expensive, to the darker shades. Taking all grades in the mink trade, assorted by color, quality and size, there are well over 100 grades.

12. REASONS FOR PRICE FLUCTUATIONS IN THE FUR TRADE

Furs are not necessities of life like wheat, textiles, milk or petroleum. Furs, and particularly mink, are fashion products and in the final analysis are subject to the whims and constantly changing tastes of women, consequently demand can change radically from year to year. In addition to fashion, furs not being a necessity are highly sensitive to economic conditions and immediately react to an economic slow-down, or the fear that one is on the horizon. A study of fur prices reveals constant and substantial fluctuations. In 1966/67, the price decline in all furs was especially sharp due to a complication of factors:

(1) The general economic slow-down towards the end of 1966 in Europe, particularly in Germany, coincided with our own economic slow-down here in America. These changes caused an immediate slackening of demand simultaneously in both Europe and in the United States with a consequent strong pressure on prices.

(2) At about the same time, mink dressing factories introduced a new revolutionary dressing process. The new process made it possible to buy a relatively modestly priced standard mink, the color of which became much darker after processing by the new method, and the value of which then became equivalent to a very expensive mink pelt.

As an example, an ordinary color mink which was bought for $20.00, after dressing, received the same value as a good color dark skin for which $50.00 was paid. It goes without saying that all goods took an immediate decline. Why should anybody pay $50.00 if the $20.00 skin, treated by the new process, would give him practically the same color?

To compound the confusion, the Federal Trade Commission ruled that mink dressed by this new process could be called "Natural". This ruling was subsequently amended twice and as a result, full confusion in the fur industry reigns today.

The above are two major reasons for the unusually sharp decline in mink prices in 1966/67. Neither has anything to do with imports.

It is important to note that the prices of all furs declined—not just mink. Here are reports on some typical sales.

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Buchara	$6.75	$4.63	−31.5
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Average	$127.48	$94.45	−25.9

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In addition, both muskrats and foxes, American and Russian, declined 50% in price, 1967 over 1966.

The case of Alaska seals is particularly significant. Here is a fur which is a monopoly of the U.S. Government and *there is no foreign competition*, hence no imports and yet Alaska seal prices declined nearly 26% in 1967 as compared with 1966, about the same price decline as the U.S. mink ranchers claim in 1967 for their product.

13. THE DOMESTIC MARKET IS EXPANDING

Eight years ago, the domestic ranchers, in their appeal to the Tariff Commission, stated that unless they received relief from the importation of foreign mink skins by the institution of a quota, their industry was immediately doomed, a plea they have repeated in 1967. They proved to be poor prophets in 1959 and for the years 1961/66, when:

(a) U.S. mink consumption rose from 9.5 million to 12.8 million skins, up 34 percent.

(b) U.S. production during that period actually out-distanced foreign mink imports by 200,000 skins.

(c) U.S. mink exports during that period rose 37 percent.

(d) Domestic ranchers actually realized an average of $3.07 more per pelt in 1966 than in 1961.

(e) As a percentage of U.S. consumption, mink imports compared to U.S. consumption rose only one percent during this six year period (from 43 percent in 1961 to 44 percent in 1966).

(f) Between 1962/66, the domestic mink crop grew in value from $116,000,000 to $160,000,000—despite an increase in imports of 1.9 million skins.

(g) In 1960/61, one year after the appeal to the Tariff Commission, dark ranch mink averaged just under $15.00 per pelt, and represented about 18% of the crop. In 1965/66, five years later, dark ranch mink averaged well over $20.00 per pelt, an increase of 33%—this despite the fact that it represented more than 26% of the greatly expanded crop.

14. IMPORT LEVELS AND PRICE DECLINES AND INCREASES ARE NOT RELATED

The major argument advanced by domestic mink ranchers in support of demands for administrative and legislative relief is the drastic price decline experienced in the most recent domestic marketing period, January through June 1967, the reponsibility for which is said to lie primarily at the feet of imports from Norway, Finland, Sweden and Denmark. David Henderson, Executive Secretary of the National Board of Fur Farm Organizations, in his report to the American mink ranching industry for 1967, states that the American mink ranchers grossed 26.7% less for their pelts this season than they did a year ago ($14.28 average per pelt as compared with $19.48 for the prior year 1965/66), or 18% in 1966/67 below the 1964/65 average of $17.57.

But these variations are not at all unusual in the mink market and are the result of fashion and economic changes—not increases in imports. Note price fluctuations in the schedule on the following page, fluctuations differing in each year from color phase to color phase, and unrelated to the generally increasing volume of imports.

DOMESTIC MINK PRICE FLUCTUATIONS BY COLOR PHASES, 1956-57 THROUGH 1965-66 [1]

Selling year	Colors [2]											
	Standard		Pastel		Sapphire		Platinum		Pearl		Gunmetal	
	Average price	Percent [3]	Average price	Percent [3]	Average price	Percent [3]	Average price	Percent [3]	Average price	Percent [3]	Average price	Percent [3]
1956-57	$14.94	----------	$20.60	----------	$25.48	----------	$17.53	----------	----------	----------	$29.92	----------
1957-58	20.41	+36.31	19.96	−3.11	23.08	−9.42	15.32	−12.61	$31.39	----------	24.87	−16.88
1958-59	23.53	+15.29	22.70	+13.73	19.31	−16.33	14.43	−5.81	28.51	−9.17	24.18	−2.78
1959-60	20.85	−11.39	22.60	−.44	20.73	+7.35	16.77	+16.22	33.43	+17.26	24.38	+.82
1960-61	14.96	−28.25	16.49	−27.04	20.42	−1.50	16.72	−.30	28.45	−14.90	21.82	−10.51
1961-62	19.28	+28.88	17.49	+6.06	20.74	+1.57	16.93	+1.26	24.06	−15.43	19.62	−10.08
1962-63	20.84	+8.09	16.87	−3.54	17.04	−17.84	13.96	−17.54	17.87	−25.23	16.50	−15.91
1963-64	23.03	+10.51	18.21	+7.94	16.35	−4.05	14.23	+1.93	17.90	+.17	17.75	+7.57
1964-65	19.17	−16.76	15.91	−12.63	19.31	+18.10	15.91	+11.81	18.95	+5.87	17.94	+1.07
1965-66	20.59	+7.41	16.19	+1.76	24.06	+24.60	17.42	+9.49	23.88	+26.02	20.11	+12.09

[1] Source: National Board 1966 Report—Figures cover period December–June of respective years shown and are the prices realized as reported by the major auction houses to the National Board.

[2] The 6 color phases shown above, make up each year approximately 85 percent of the sales of all color phases in the autction houses. The precentages of the total vary from year to year, but in general in recent years, standards provided about 25 percent of the total; pastels about 35 percent; pearls 11 percent; sapphires 7 percent; platinum 2 percent, and gunmetal 3 percent.

[3] Percentages shown are increases or decreases from the prior year.

Single year changes, it will be noted, are substantial and *frequently have been much greater than the 26.7% experienced in 1966/67.* Note for instance that in 1957/58, the average price of standard was up 36.61% over 1956/57. (Comparison of 1958/59 with 1956/57, shows a two year increase of 57.5%.) Note also that 1960/61 prices of standards were *28.25% lower* than 1959/60. (Comparison of 1960/61 with 1958/59 shows a *2 year decrease of 36.42%*.) Following these two years of decreases, the price shot up again so that in 1961/62 there was a *28.88% increase* in the price of standards over 1960/61. (Comparison of the 1962/63 standard price with the 1960/61 shows *an increase in the two years of 39.30%*.)

Similar gyrations appear in the case of the sapphires. Prices declined in the two years following 1956/57, a total decline of 24.22% in 1959/60 from the 1956/57 level. Prices of sapphires then remained fairly level until 1962/63 when they were 11.76% below the 1958/59 level. Three years later, in 1965/66, they had shot up 41.20% over the 1962/63 level of sapphires.

The fact that fashion is a primary factor in price fluctuations is evident from comparison of the increases with the decreases in a single year in various color phases. Thus in 1958/59 standards and pastels enjoyed a considerable price increase while all other color phases decreased from 3% to 16% from the prior year. In the following marketing year, 1959/60, standards and pastels declined whereas all other color phases increased, in two of them as much as 16 to 17% over the prior year.

Finally, comparison of the price fluctuations shown by the schedule with increases and decreases in imports shows the two are unrelated. In 1965/66 average prices per pelt according to the National Board were $19.48, an increase of 9.8% over 1964/65, but from December 1965 through June 1966, imports increased 16% over the same period 1964/65. In 1966/67 imports decreased 7% under the level in 1965/66, yet the average domestic pelt price dropped to $14.28, according to the National Board, a decrease of 26.7%. The price drop seems wholly unrelated to imports and certainly cannot be blamed on an increase in imports for there was in fact a decrease. Later figures show that in the first eight months of 1967, the decrease below the first eight months of 1966 is almost 10%—a total of 417,208 pelts.

15. PAST UNHAPPY EXPERIENCES WITH IMPORT QUOTAS AND RESTRICTIONS ON FURS

Import quotas and embargoes are of dubious value to start with. In the fur trade we know from bitter experience that they do not work at all.

The American silver fox industry at one time was large and an annual production of 350,000 skins a year was reached in 1939, according to the Department of Interior Fish and Wildlife Service. Silver foxes were protected by a duty of 37½ percent. In 1939, at the height of its fashion demand, the fox ranchers succeeded in having Congress impose an import quota which limited the importation of foreign produced silver foxes to 100,000 skins per year. On top of this, in 1951, the ranchers succeeded in imposing an outright embargo on all foxes from the Soviet Union. The import quota, the duty and the Russian embargo are still on the books today and what is the unhappy result?

(a) Importation of silver foxes fell rapidly and is today practically zero.

(b) American yearly production of silver foxes is down to a few thousand skins.

(c) American consumption of silver foxes is down to zero.

Neither an embargo against the Russian foxes nor a general protective tariff against all other countries has helped the domestic silver fox industry. In the fur industry, *fashion* is the primary determining factor, and restrictions on the normal supply of any given fur, drive the manufacturing and dealing segments of the trade into other furs. The end result is almost always to the detriment of those who sought "protection". Many of the mink ranchers today are the sons and daughters of former silver fox ranchers, but the lesson seems to have been lost on them.

At the same time that the ranchers succeeded in imposing an outright embargo on Russian foxes, they also succeeded to embargo Russian muskrats. The embargo on muskrats is still on the books today and the unhappy result is:

(a) Importation of Russian muskrats went down to zero.

(b) Production of American muskrats steadily declined and was down to 4,305,096 skins in 1965, according to Field and Wildlife Service of the Department of Interior, a decline of 50% from 1951 when the embargo was imposed.

(c) American consumption of muskrats steadily declined and was down to only 228,067 skins in 1966, according to information supplied by American dressing factories.

(d) The bulk of the American crop of muskrats (95%) has to be marketed abroad, including Scandinavia, or by mink rancher definition "dumped in Europe".

16. A QUOTA WOULD UPSET U.S. FUR MARKETS

A mink quota would harm the American fur trade as a whole, and would have an immediate disastrous effect on the ranchers, for it would completely disrupt the already chaotic marketing situation in the mink trade.

There are 15 foreign mink producing countries in the world, aside from Russia, namely: Canada, Denmark, Norway, Sweden, Finland, England, Netherlands, West Germany, East Germany, France, Belgium, Poland, Spain, Yugoslavia and Czechoslovakia. All these countries have always sold their mink in free competition to the highest bidder regardless of from what country he came.

Now, assuming a quota of 5 million mink is established for the importation of foreign mink, it is logical to assume that all these countries would change their marketing policies and there would ensue a scramble for the maximum share of the American mink quota.

This would create an over-supply in the crucial early part of the selling season, January-February, because the goods would be exported to the U.S. irrespective whether or not an actual demand existed.

17. SCANDINAVIA TAKES ACTION TO IMPROVE BREED

The Scandinavian countries instituted measures in mid-1967 to improve the quality of their furs. Such action encouraged the killing of stock to reduce the number of skins in the dark and pastel shades, concentrating on the poorest grades. They also planned to cut down on their breeding stock to ensure a lower level of production after the 1968 mating season. The action by the Scandinavians was taken at a time when uninformed statements were being made on the floor of the U.S. Congress that Norway and other Scandinavian countries were planning til increase their production "by 20%". The program of the Scandinavians was announced by Ivar Thome, Managing Director of Oslo Fur Auctions on July 29th before the opening of the Oslo fur auction:

"To help to bring about the stabilization of the international mink market as quickly as possible the four Scandinavia Fur Breeder Associations in a meeting of May 25th agreed upon a joint plan to reduce this year's production of mink skins by 25%.

"The Scandinavian auction houses and the breeder associations are going to pay individual farmers a premium for each animal taken out of production and destroyed now.

"The scheme is, of course, not compulsory, on the contrary it is voluntary, but we are quite hopeful of its effect. The aim of the plan is to reduce the 1967 mink crop in Denmark, Finland, Sweden and Norway by more than 2,000,000 skins of dark mink and pastel and measures have been taken to insure that especially the poor quality mink are taken out of production."

18. SALE PRICES SHOW UPTREND IN RECENT 1967 SALES

Price fluctuations are a normal practice in the fur trade. Prices for furs are constantly going up or down. They almost never remain steady at one level.

In July 1967 the curve again started to move up and the whole industry is in an upward move. Recent London auctions showed strong upward price tendencies, as did sales in the last few weeks in Oslo, Copenhagen, Canada and New York.

Strong buying participation by West Germany—a conspicuous absentee earlier in the season—accounted for much of the rise in the recent Scandinavian sales and indirectly affected sales elsewhere.

19. U.S. CONTINUES SALE OF BREEDER STOCKS ABROAD

It is important to point out that the U.S. rancher is the undisputed father of the ranch mink production abroad, particularly Scandinavia.

The U.S. rancher was primarily responsible for the great extension of the Scandinavian mink industry, selling thousands of breeding stock to Norway, Sweden, Finland and Denmark. In fact, in the three year period following the 1959 Tariff Commission claim by the domestic ranchers that Scandinavian breeders were going to bankrupt the domestic industry, domestic ranchers sold further quantities of breeding stock to Scandinavia, no doubt at a substantial profit.

20. QUOTA ON MINK SKINS WOULD HURT U.S. BEST CUSTOMERS

The ranchers in propagandizing for protection, consider free trade as virtually un-American. But the overall interests of the nation represent the true morality.

The nations that would be hardest hit under a mink quota system would be Canada and the Scandinavian countries—both areas now providing the U.S. with a favorable balance of trade. Canada's record imports from the U.S. in 1966 hit $6.7 billion—a favorable balance for us of $540 million.

As pointed out recently by Assistant Secretary of State Macomber, "our (U.S.) exports to Scandinavia in 1966 were valued at $687 million and exceeded imports from that region by $56 million."

A look at the figures on trade between the United States and Scandinavia shows that our northern friends imported millions of dollars worth of our agricultural products; in fact, their purchases of oilseeds, grains, and grain products represented the major portion of their dollar purchases.

Assistant Secretary of State Macomber also commented on the Kennedy Round of tariff negotiations as follows:

"The successful conclusion of the Kennedy Round of tariff negotiations will provide an unprecedented expansion of the opportunities for mutually beneficial trade. To take advantage of this development the President on May 23 directed the responsible executive agencies to find new ways and means of bringing about a major increase in United States exports. However, in working toward this goal, we must necessarily keep in mind that the willingness of Canada, the Scandinavian countries, and our other trading partners to continue to purchase increasing quantities of American exports will be importantly influenced by our treatment of their shipments of mink furs and other products to the United States market. Thus, if we were to impose a quota on imports of mink furs it would undoubtedly lead to demands in the exporting countries for restrictive action against United States exports and the major benefits we hope to realize from the Kennedy Round agreement would be jeopardized."

21. EUROPEAN NATIONS SUBSTANTIALLY REDUCED TARIFFS UNDER KENNEDY ROUND

It should be noted that there were substantial tariff reductions on furs and fuu products by the Scandinavian and EEC countries (France, West Germany, Belgium, Holland, Switzerland, and Italy) in the Kennedy Round, thus giving our tur industry more of an open sesame to these important markets. It is of imporfance also to note that all but one of the Scandinavian countries and all of the EEC countries rebound raw mink skins in a duty free status, the principal foreign source of such skins in those markets being the United States and Canada.

22. MOST OF THE U.S. FUR INDUSTRY OPPOSES QUOTAS

The overwhelming majority of all segments of the fur industry strongly opposes a quota system for mink imports.

(a) *Skin dealers and brokers* support a free mink market. The market is international and any attempts to separate one segment of the mink skin market from another are simply unrealistic.

(b) *Manufacturers* representing both of the major manufacturing associations oppose a quota as a limitation of their free choice in making purchases, and as a bad precedent that could extend to other furs, or become more restrictive on mink.

(c) *Fur designers* traditionally favor free movement of goods and ideas. They know that there is only one satisfactory market—a world-wide market—for mink, the most popular of furs.

(d) *Retailers* oppose the quota because they want to offer merchandise at various price levels conducive to the broadest possible distribution of their products.

(e) *The fur workers*, at both the manufacturing and processing levels, are firmly against a quota, because such a quota would curtail the domestic dressing and manufacturing industry and would foreshadow possible unemployment.

23. QUOTA ENDANGERS NEW YORK AS FUR CENTER

In 1951, when the Russia embargo went into effect, it had a great psychological effect on international fur producers and fur traders. The fur trade is basically an international trade and any restrictions on the free exchange of goods works economically against the country which imposes such restrictions. This is borne out by the decline since 1951 in firms and workers connected with the industry in New York.

In 1951, there were 50 dressing and dyeing firms. In 1966, there were 25. There 2,112 manufacturing firms in 1951, and 1,261 in 1966. There were 13,600 workers employed in manufacturing firms in 1951 and 8,700 in 1966.*

24. CONCLUSION

In conclusion, it is quite obvious that imports, far from injuring the domestic fur industry, have been a distinct help to it. The United States does not produce enough of the types of skins desired by the American woman and hence necessary to the fur trade in meeting the market demand. Past history proves that any obstacle in this highly changeable fashion world is generally bypassed and other furs, more readily available at a more attractive price to the purchaser, will jump to the forefront of public fancy. The consumer, often forgotten in the struggle of the marketplace, would lose another opportunity for a free and unfettered choice were foreign mink skins barred from the U.S. market. Mink would again become the possession of the few instead of the many.

(The following are communications received by the committee expressing an interest in the preceding subject:)

Statement of Hon. Warren G. Magnuson, a U.S. Senator From the State of Washington, Concerning Mink Import Quota Legislation

Mr. Chairman, mink ranching is an integral part of the agricultural economy of my state of Washington. In 1965 the gross income to ranchers from mink production amounted to $10,121,000 produced on 217 separate ranches. I am here on behalf of these mink ranchers seeking support for legislation which has been introduced to give these and other ranchers, at least, a small degree of protection from imports of mink skins.

Currently, mink pelts are found on the "free list" and are coming into this country at an ever increasing rate. Largely as a result of these imports, the United States has lost over 40 percent of its mink ranches in the past seven years. Unfortunately, Washington shared in that loss of mink ranchers, and in addition, many of the fishermen in Washington lost a ready market for their by-product since mink are probably the largest market for fish offal. Not only have the mink ranchers in Washington contacted me about the decline in ranch numbers because of the imports, but also a number of the fish products producers have written me letters asking relief for the domestic mink ranching industry.

Let me say here, that the protection being sought by the mink ranching industry is not protective legislation in the classical sense. Already, our domestic ranchers have lost 40 percent of the domestic market to imports. They are willing that no roll-back in imports be made and that the foreign producers retain that 40 percent. I know of no other industry willing to make such concessions to freer trade. After the 40 percent of domestic consumption is reached, however, the domestic industry would like to see a 50 percent ad valorem tax placed on any additional skins beyond the 40 percent. This not only means that the foreign producer of mink skins would retain his current share of our domestic market, but in addition, would share in any increase in consumption in the United States. This is a very enlightened view in this current period when so many of the agricultural and industrial segments of our economy are seeking a roll back on imports or almost complete embargoes.

The vital need for this legislation has been pointed out by representatives of the mink ranching industry. I wish to state again that I support their approach to their import problem and I hope that this committee will give them sympathetic and expeditious consideration.

Thank you, Mr. Chairman, and members of the Committee.

*Sources: Fur Dressers Guild, Furriers Joint Council of N.Y., Fur Age Weekly, N.Y. State Department of Labor, Furriers Joint Council of New York.

STATEMENT OF HON. EDWARD W. BROOKE, A U.S. SENATOR FROM THE STATE OF MASSACHUSETTS

I am pleased to have this opportunity to discuss the effect of imports upon the mink industry, for I feel the plight of the nation's mink ranchers is a serious one.

There are but 4,458 mink ranches in the United States. In numbers, they do not represent a significant constituency in any state. But their case is one that is worthy of consideration.

American mink is raised on small family-sized farms with some help from hired labor. These mink ranchers have organised to develop consumer markets. They have spent over $20 million to make mink the most coveted of furs. They have succeeded in their aims, but the fruits of their efforts are going to foreign mink ranchers.

Since 1959, the number of mink ranches in this country has been reduced by 2,742 or 38 percent, because of the tremendous influx of duty-free imported mink pelts, which have captured over 40 percent of the domestic market. Foreign imports have depressed the average U.S. auction price from $21.48 in 1959 to $15.00 in 1966. Since it costs on the average $18.25 to raise a mink pelt, the American mink rancher is no longer even "breaking even." Aside from the higher cost of labor and feed, the cost of raising mink is high because of the strict veterinary regulations which do not apply in foreign countries.

The American mink rancher cannot reduce his costs. He cannot compete successfully with foreign imports. More and more families that have raised mink for generations will have to quit. Their only recourse is protective legislation.

Because I believe this industry should survive, I have added my name as a co-sponsor of S. 1897, a bill which would impose a tariff on all skins after a quota amounting to 40 percent of the domestic market in a given year had been allowed to enter the country duty-free. I urge the Committee to give S. 1897 favorable consideration.

STATEMENT OF HON. LEN B. JORDAN, A U.S. SENATOR FROM THE STATE OF IDAHO

Mr. Chairman, I appreciate the opportunity to give you and members of this Committee my views on S. 1897 which will amend the tariff schedules of the U.S. with respect to the rate of duty on whole skins of mink, whether or not dressed.

This bill would limit foreign mink producers to 40% of the American consumption market without a duty payment, then a 60% tariff would be added to any additional imports on mink.

Mr. Chairman, we are trying to encourage people who now live or have employment in rural towns and farming areas to remain there rather than to migrate in great numbers to overcrowded cities. The problem of our cities is well known. It has been greatly publicized. Some of the problems are unemployment, lack of proper housing, crowded schools, sanitation controls and increases in crime. We have been told it may require hundreds of billions of dollars to attempt rehabilitation. No clear cut programs have yet emerged. Now and for the past several years more than a half million people a year leave the farms and rural communities to move to the cities. Many of these people are untrained for any city employment. This committee and members of Congress now have an opportunity to assist in making it possible to keep more families from joining this migration.

Mink farming, if profitable, can keep thousands of families in rural areas where the air is pure, the water clean and the environment for rearing families is favorable. Many of our mink farmers can operate a part of their farm in a mink production program along with other operations. Their families can also assist in rearing and caring for mink. It fits in well with our overall agricultural programs in the intermountain area. We do not ask that all imports be stopped—40% of our needs could still be filled from imports wi*h no duty. Our high living standards, high wages for help, higher taxes, higher cost of marketing than competitors in other countries make it necessary that the American mink grower have protection from foreign imports. This bill is reasonable and it is charitable to mink producers from other countries.

I, along with the mink producers of my State of Idaho request that members of your Committee give full consideration to the need for protection from excessive mink imports to our country.

Statement of Wisconsin Senator Gaylord Nelson

Mr. Chairman, I want to thank you for this opportunity to offer my support for legislation to place reasonable limitations on the importation of duty-free mink pelts to the United States. I am sure that my 22 other colleagues sponsoring mink import legislation in the Senate join me in this appeal.

Our nation's mink ranchers have developed their industry over a period of many years. It is an important agricultural product. It is only proposed by this amendment that reasonable import controls be imposed so that dumping of foreign mink will not wipe out an important American industry.

American mink ranching is not a hobby or simply part time work. It means full time employment for thousands of Americans, who have an investment of nearly $200 million in ranch production alone. Mink pelt sales bring around $170 million into the country's economy each year.

But the future of these ranchers and their families is being seriously threatened by the alarming increase in foreign mink imports, which have risen nearly 50% over the past five years. Duty-free imports of foreign pelts surpassed the five million mark last year for the first time in history.

More than 40% of our nation's mink ranchers have been forced out of business since 1960 due to this rising volume of low-priced foreign pelts.

Not only have these imports disrupted the American mink industry, but they have also accounted for a loss of gold flowing to foreign countries in the amount of $73 million annually.

The Scandinavian countries have been the main source of the increasing imports during the past few years. The combined mink production of Denmark, Finland, Sweden and Norway now exceeds U.S. production. With a surplus developing in those countries, they increased their shipments to America by more than 23% in 1966 alone.

With government shipping subsidies and cheap labor costs, foreign countries have been able to dump their surplus mink production on our markets at an average price of $11 per pelt, at least $7 less than even the cost to produce a pelt in the United States. This is not fair competition.

The mink import legislation that we have presented would allow foreign mink pelts to continue entering the country duty-free until the annual total equals 40% of the domestic consumption in the United States. All pelts imported after that point would be subject to a duty equal to 50% of their value.

This proposal is just and fair to all concerned. It will enable our American mink ranchers to retain the domestic markets that they have developed through years of hard work and promotion. At the same time, the plan will allow foreign mink producers access to a fair share of our market on a duty free basis with their share increasing as consumption expands in the United States.

The latest figures that I have seen indicate that imports this year are well above the monthly figures for 1966. It appears that there will be no voluntary let-up in sight for the mink import problem. Immediate legislative action is needed if the domestic industry is to be saved.

I would like to impress upon the Committee the very urgent need for immediate action. The present mink crop must be marketed within the coming weeks. Therefore, American mink ranchers must decide very soon whether or not they will be able to stay in business for another year. Unless controls are placed on this present flood of mink imports, hundreds of additional mink ranchers will be forced out of business.

However, if the ranchers receive some indication by the action of this Committee that their government is indeed concerned about their future, we may be able to save businesses and jobs for many Americans.

Mr. Chairman, I think this is reasonable legislation which treats foreign producers most generously by any free trade standard of measurement.

Congress of the United States,
House of Representatives,
Washington, D.C.

Hon. Russell B. Long,
Chairman, Senate Finance Committee,
U.S. Senate, Washington, D.C.

Dear Mr. Chairman: In view of the hearings which your Committee is conducting this week on the subject of import quota legislation, may I bring to your attention the desperate plight of the mink ranchers of this country who are in dire need of relief from the flood of mink pelts which are being imported into this country.

To illustrate, in my own district in Wisconsin, ten mink ranchers have gone out of business in the past year. Predictions are that forty per cent of the remaining ranchers will be put out of business by the end of the year unless relief is forthcoming. The economic implications of this situation are clear when one realizes that there are 1,000 mink ranchers in Wisconsin who employ 3,000 persons, whose annual payroll is over $10 million, whose capital investments exceed $50 million, and whose gross sales total $46 million.

We cannot afford to allow this industry to be submerged by competition from abroad. Foreign mink imports are increasing by drastic proportions, particularly from Scandinavia, while the American producers are struggling to remain in business.

I will appreciate your serious attention to this matter and I trust that it will receive the earnest consideration of your Committee during these hearings.

I will also appreciate your including this letter in the official transcript of the hearings.

Cordially,

HENRY C. SCHADEBERG,
Member of Congress.

STATEMENT OF HONORABLE WENDELL WYATT, A U.S. REPRESENTATIVE FROM THE STATE OF OREGON

The American Mink pelt industry is little known generally, but an economically important national industry. This industry is presently endangered by the increasing importation of low cost, low quality foreign, non-dressed mink pelts.

The magnitude of the mink industry in this country is greater than usually imagined. Today there are over 3700 mink ranchers in the United States generating a total annual business of $160,000,000. In 1950 there were over 6,000 mink ranchers.

While the domestic demand for mink pelts has risen 30% in the last five years, foreign imports of duty free mink pelts have risen almost 40%.

A radical decline in the price per pelt paid producers during this period has placed our domestic mink breeding industry on the borderline of a crisis. Marginal profits enable today's mink rancher to barely keep his head above the flood of cheap foreign pelts.

In 1966 pelts were worth an average of $19.48 per skin. This year the price has dropped to less than $15 per pelt. Imported pelts, allowed in duty free, when untreated or "undressed", are being marketed this year in competition with American produced pelts at an average of $9.54 per pelt.

Oregon's mink industry alone produced pelts annually valued at over $7,500,000 representing a capital investment of over $8 million, just in Oregon, endangered by the growing influx of low-cost duty-free foreign pelt imports

In the last 25 years the annual number of pelts imported has risen from about 865,000 annually to well over 5.5 million! Our American mink ranchers need our help now to protect their investment and the domestic mink market.

Over 50 Representatives including myself and 21 Senators have introduced legislation to establish a quota-tariff on undressed mink imports. I certainly urge that consideration be given this immediately in order that our domestic mink ranchers be freed from the threat of unlimited and unfair foreign competition.

OREGON STATE FUR BREEDERS ASSOCIATION,
Salem, Oreg.

Hon. RUSSELL LONG,
Washington, D.C., the U.S. Senate.

DEAR SENATOR LONG: I am writing to urge you to do all you possibly can to support the legislation concerning the mink industry and the other trawl industry of Oregon.

Both industries are in a very critical situation at the present time and have bills and investigations in process and would like to urge you to give us all the support and influence you can in our efforts to keep imports from flooding our home markets to the extent that they have during this past year.

You are well aware of the extent of imports of both fish and furs and the impact it has had on our industries during 1967. Thank you for your attention to this matter.

Very truly yours,

TED JACOB, Jr., *President.*

STATEMENT BY GEORGE STOFSKY, MANAGER, FURRIERS JOINT COUNCIL OF NEW YORK

My name is George Stofsky. I am the Manager of the Furriers Joint Council of New York, an affiliate of the Amalgamated Meat Cutters and Butcher Workmen (AFL-CIO). The Council has its offices at 250 W. 26th Street in New York.

The Council is composed of 10,000 members who work on fur skins and the making of these skins into fur garments.

Our statement is an appeal for urgent help to obtain relief from the operation of the embargo on raw and dressed fur skins from Russia and Communist China which is contained in the Trade Agreements Extension Act of 1951.

The provision is contained in Part 5, Subpart B(4), Section 121.65 of Schedule 1 of the Tariff Schedules (19 U.S. Code Annotated 1202) and forbids "the entry, or withdrawal from warehouse, for consumption of ermine, fox, kolinsky, marten, mink, muskrat, and weasel fur skins, raw or not dressed, or dressed, which are the product of the Union of Socialist Soviet Republics or of Communist China."

As we point out below, a loophole in this ban has not only frustrated its purpose but has operated to encourage the import of these banned skins at an accelerating rate to the increasing detriment of all branches of the domestic fur industry, and especially to the fur manufacturing employees whom we represent, and to the national economy as well.

This incredible result is due to the fact that the ban on *the import of raw or dressed skins, does not restrict the import of fur garments manufactured from these skins!*

As a result of this situation, it is entirely legal for manufacturers to buy these banned skins for manufacture into garments in other countries such as Canada, where the ban does not exist, and to ship and sell fur garments made from these skins in the United States. Such garments have been increasingly featured and promoted by such prominent stores in the New York area as Saks Fifth Avenue, Tailored Woman, Macy's, and others. The same is true in other markets in the United States with resulting loss of scarce jobs and livelihood for American fur workers and to the harm of domestic fur breeders and dealers in and manufacturers of garments made from non-banned skins.

This harm is caused by the underlying fact that the ban on these skins tends to depress their prices. Superficially, it would therefore seem that the ban is accomplishing its purpose. The contrary is the fact, for the lower price makes these skins artifically and, therefore, unfairly competitive with other skins. The increased volume of sales and rise of this practice, therefore, more than compensates for the lower unit price because of the expanding volume. More importantly, also, the ban (in combination with the loophole) compels the manufacture of these skins into garments to be performed in other countries, where standards of wages, hours, sanitation, health, and other benefits are far below ours.

The finished imported garments are thus more than competitive with American products and increasingly threaten the domestic industry, despite the superior styling and workmanship of American garments and the greater productivity and skill of American workers. Moreover, the harm is not limited to them. The balance of payments of the nation is adversely affected because the present situation encourages the expenditure of American dollars for labor abroad instead of as payment of wages to American workers.

The increasing rate of import of such garments shows that any damage to the target countries is miniscular in comparison to the damage to the domestic economy, at least if the loophole continues to exist, and that the effect of the ban is the very opposite of what Congress intended in enacting it.

We therefore urge the Committee to take steps to repeal the ban altogether or, if the reasons which impelled it are still deemed valid, to close the loophole by extending the ban to garments manufactured from the prohibited skins.

CHRISTENSEN MINKERY,
Cambridge, Wis.

Senator RUSSELL LONG,
Senate Office Building,
Washington, D.C.

DEAR SENATOR LONG: I read in the Women's Wear Daily, this morning, about the numerous pending quota proposals and was pleased with your statements before the Senate Finance Committee.

Mink ranching suffered a severe blow with the 1966 crop of mink. Our ranch has been in operation for 38 years and last year was the first loss we ever suffered. Many of the small and under-capitalized ranchers are going out of business and leaving heavy debts behind.

The ranchers are asking for a 40% quota of the United States consumption. Personally, if it is going to do any good and save our industry a 25% quota would be more realistic.

Mr. Johnson, has lost so much popularity with Vietnam, race riots, strikes and other unrest and now he is taking another step . . . destroying U.S. businesses, letting the farmer compete with nations that can undersell us. In our little business we have spent a small fortune promoting our product (mink) and the outside world moves in and capitalizes on our efforts. What do we do? Move to Europe?

Sincerely yours,

E. S. CHRISTENSEN.

STATEMENT OF HENRY FONER, PRESIDENT, JOINT BOARD, FUR, LEATHER & MACHINE WORKERS' UNIONS, AMALGAMATED MEAT CUTTERS & BUTCHER WORKMEN OF NORTH AMERICA (AFL-CIO)

The proposed Kennedy round tariff reductions on dressed and dyed fur skins will have a serious effect upon an industry already hit hard by the competition of foreign dressed and dyed fur skins, processed under wages and conditions far inferior to those that have been established by the unions here after many years of struggle and sacrifice. In this connection, the attention of the legislators is called to the hardships already suffered by sectors of the domestic fur processing industry, even before the impact of the Kennedy round is felt. For example—and most graphically—our rabbit dressing industry, deeply affected by the changing fashions in furs, was administered a virtual death blow by the flood of imports of dressed and dyed rabbit skins that has inundated our market from France and Belgium. The unfairness of this situation was pointed up by the fact that the French rabbit dressers have been favored with a reduction in their social security taxes, in proportion to the number of pelts that they were able to export to the United States.

Similar effects have been felt by the Persian lamb processing industry, which, until recently, has been confined to only two companies in the metropolitan New York area (a third has just recently been added). For the past several years, these processors have had their volume of work—and correspondingly, the earnings of their workers—sharply reduced due to the increased imports of dressed and dyed Persian lamb skins from Europe, and particularly from West Germany.

In the case of both the rabbit dressers and the Persian lamb processors, we of the Union have, together with the representatives of management involved, constantly sought relief from the appropriate tariff authorities. Now we face a poliferation of the problem, which threatens to engulf all other fur products as well. Particularly vulnerable is our domestic mink dressing industry—a highly skilled section of our trade which has long enjoyed well-deserved primacy in the world fur market. If the experience of their colleagues in the industry is any guide, they, too, face considerable difficulty in maintaining their level of operation and in continuing to provide employment for the members of our Union.

Our Union is very proud of its record of achievement in establishing wages and working conditions that are among the finest in the American labor movement. We are also deeply proud of the consummate workmanship and skill that our members have brought to this industry. We ask our legislative representatives to enable us to maintain these standards by halting the proposed reductions in the tariff on dressed and dyed fur skins. Failure to act literally threatens the continued existence of a significant service branch that has made significant contributions to the American fur industry, to the American consumer and to the American economy.

IOWA FUR FARMERS ASSOCIATION.

Senator RUSSELL B. LONG,
Chairman, Senate Finance Committee,
Washington, D.C.

DEAR SENATOR LONG: We are writing on behalf of the *mink farmers* of the State of Iowa in support of the position of the National Board of Fur Farm Organizations pertaining to a quota on the importation of duty-free, cheaply produced foreign mink pelts.

The mink farmers of Iowa, all of whom belong to the Iowa Fur Farmers Association, have taken an increasingly severe economic whipping in recent years at the expense of mushrooming expansion overseas. Their expansion has been clearly designed to capture the U.S. market since domestic consumption in their own countries is practically nil.

Figures show they have expanded at a rate approximating five times that of our U.S. farmers. Dumping this deluge of pelts on our market duty-free has caused drastic price adjustments resulting in the loss of about one-third of Iowa's producers since 1960. Industry spokesmen and credit sources claim the next one-third may be wiped out in the coming season alone.

Our members feel the proposed 40% quota is more than fair. Even though we are at the brink of being forced out of business we will concede the 40% of our market they now have if we can have some assurance that our efforts to create new markets will not be ambushed by increased imports of cheaper produced, cheaper quality pelts.

The ranch raised mink business was born and conceived in the U.S. It is a very sad feeling indeed to see people who have pioneered and devoted their lifetime to an occupation being squeezed out and their considerable investment rendered practically worthless by a competitor who has used our inventiveness and capitalized on it only by cheaper labor, cheaper production cost, a lower standard of living, and especially by pirating the market created and maintained mainly by our advertising.

Under these circumstances we feel our government can rightfully impose reasonable restrictions to allow hard working people the opportunity to make a reasonable living. The 30% price drop last year under the influence of a tremendous increase in the foreign crop has resulted in prices well below the cost cf production. The United States is going to lose a very worthwhile industry in its entirety unless we receive your help now.

Sincerely yours,

EVERETT MUELLER,
President.
PALMER ERICKSON, JR.,
Legislative Chairman.

NATIONAL BOARD OF FUR FARM ORGANIZATIONS, INC.,
Stratford, Wis.

Senator RUSSELL B. LONG,
Chairman, Senate Committee on Finance:

I am writing in support of the statement of the National Board of Fur Farm Organizations, Inc., which speaks for the entire mink industry of the United States.

Mink ranching has been our whole life, having been in the business for over 30 years. I have seen many ranchers quit especially in the last 4 to 5 years. Within our area, which is the central part of Wisconsin, some of the older and more prominent ranchers has quit within the last year.

A rise in cost of the by-products needed for feed has increased our production costs considerably.

Auction companies have dropped loan credit from $10.00 per kit a year ago to between $5.00 and $7.50 per kit this year.

Labor cutback has averaged from ⅓ to ½ per ranch. Many medium size ranchers went out to work leaving their families do most of the work on the ranch.

At the present rate I feel that there will be very little left of the mink industry if some steps aren't taken to control the imports from foreign countries.

Sincerely yours,

CARL SPINDLER,
National Board Director.

FORESTVILLE, CONN.

Senator RUSSELL B. LONG,
Chairman, Senate Committee on Finance,
Senate Office Building, Washington, D.C.

DEAR SENATOR LONG: At the request of Mr. David W. Henderson, Executive Secretary of The National Board of Fur Farm Organizations, Inc., 152 W. Wisconsin Avenue, Milwaukee, Wisconsin, 53203, I am enclosing a statement which I have entitled "The Plight of the U.S. Mink Farmer."

The National Board is made up of representation from practically every state mink organization in the United States and is, therefore, in a position and has the authority to speak for the entire mink ranching industry in the United States.

I trust you will give this statement your careful consideration. If there is additional information I can supply, please feel free to call upon me.

Very truly yours,

JAMES J. CRITCHLEY,
Secretary, Connecticut Mink Farmers' Association.

THE PLIGHT OF THE U.S. MINK FARMER

The U.S. mink rancher is battling for his very existence. 40% of the mink farmers in the United States have been forced out of business because of the flood of pelts into the United States from foreign countries. The Scandanavian countries (Denmark, Finland, Norway and Sweden) are now producing more pelts than the combined production in the United States and dumping their pelts onto our market.

The mink industry in the United States has spent $22,000,000.00 in advertising starting in 1944 to date to establish our market for mink garments. Last year U.S. buyers spent $73,000,000 for foreign mink pelts. The cost of producing a mink pelt in the United States from reliable sources is somewhere between $16.00 and $18.00 depending upon the rancher—yet these foreign pelts sold for an average of $10.72 for the 4,572,988 pelts that arrived in this country during the 1966–67 season. The average for EMBA (U.S.) pelts sold to date for the 1966–67 season after deducting commissions, dressing, and assessments is $12.10 per pelt—net to the mink farmer. And more startling the June, 1967 sale averaged (gross) $10.32—a drop of 33% from the December, 1966 average. The U.S. market is now glutted with pelts remaining to be sold and many ranchers are awaiting funds from last year's crop. Reports are coming in where mink farmers are offering their present kit crop for as low as $1.00 per kit. What other alternative do they have when they cannot get the money to buy feed? It is rather crystal clear that our foreign competition is trying to capture our U.S. market.

A little review of the mink industry might be in order. There were a very few individuals attempting to raise minks in the 1920s. To this number a few more were added in the 1930s. Like many other pursuits, mink farming had to go through its growing pains. In the early stages very little was known about balanced diets and minks were fed on a trial and error basis. It was not until 1940 that minks were raised in considerable numbers. Mink farmers found out how to feed minks and how they should be housed, and more people entered this field of endeavor. It takes an individual many years to establish a successful and profitable mink farm. First, he must spend large sums of money for breeding stock—the best he can buy. Then he must spend over a period of years additional large sums for equipment, including grinders, mixers, feeders. But his biggest expense is involved in the building of expensive sheds, cages, freezers and barns for storage and other facilities. Of course, he has to purchase a farm to begin with and secure trucks and pay the wages of men to help him operate his farm. The above pertains to the mink farmer who goes into the raising of minks on a full-time basis and he is the very one we are most concerned about. He therefore has an over-all expenditure of many thousands of dollars.

During this so-called "build up" of his farm he is plagued with disease and poor production on occasions. Disease can wipe out many hundreds of his minks before it is brought under control. Again the establishment of a successful mink farm does not happen over night but requires a period of many years.

The facts and figures brought out above apply equally well with regard to Connecticut mink farmers. I feel that I am in a good position to state the facts concerning Connecticut mink farmers since I started raising minks back in 1929. I have also been Secretary of Connecticut Mink Farmers Association since its inception in 1946. Although I did not raise minks on a large scale the period of such raising covered 34 years. However, as far back as 1963 I was just about breaking even and finally had to quit the mink business because I could not make a profit.

Let us go back to 1955. In that year 111 persons were licensed to raise minks in Connecticut. Since that year our membership has dwindled every year until now we have only 45 individuals raising minks in Connecticut. Reports now coming in to me indicate that several more mink ranchers will pelt out this fall. Other mink farmers who have been in the mink business for many years and who have thousands of dollars tied up in their farms will attempt to hold out since they do not want to see their life's work and investment washed down the drain. The success or failure of their mink farms will depend in a large measure on the outcome of legislation which must be established on foreign mink pelts coming into the U.S. market.

Let us take a typical case of a mink farmer here in Connecticut who is being forced to throw in the sponge this coming fall. His name is Joe Wood and he lives at Egypt Lane, Clinton, Connecticut. He has been raising minks for twenty years and started his mink farm in Pennsylvania. He moved to Connecticut several years ago because of the accessibility of ocean fish. Joe is a conscientious, hard-working individual who has persevered right down to the end. He is a director of Connecticut Mink Farmers' Association and has been its president. He attended Yale University and decided to use his talents in the establishment of a mink farm. He pelts from 3500 to 4000 minks a year and has a huge investment of several thousand dollars tied up in his mink business. When an experienced rancher of his stamp and ability has to call it quits, I can foresee where hundreds of other mink farmers are doomed unless some rather drastic import controls on pelts are established.

Let me state that the U.S. mink rancher contributes much to the U.S. economy by purchasing millions of pounds of agricultural by-products per year. There is also a turn-over of over $150,000,000.00 in the sale of ranchers' pelts. Like every other individual, he pays huge sums in taxes to help support our economy.

The mink rancher is asking support for Bill HR 6694. This bill would permit pelts to come into the United States duty-free until the amount equals 40% of consumption in the United States. Isn't this bill worthy of your support?

On behalf of Connecticut Mink Farmers' Association, I am urgently requesting that you support this bill.

[Telegram]

MANHATTAN, MONT.

Senator RUSSELL LONG,
Chairman, Committee on Finance,
Washington, D.C.

Due to severe economic losses resulting from the excess dumping of Scandinavian mink on our markets in December and January, approximately 20 percent of Montana's mink ranchers have been forced out of business, another 20 percent including myself are being forced out of business this year. Continued dumping of this quantity of pelts on our markets will mean the elimination of mink ranchers in Montana within approximately 2 years.

RALPH W. CLARK,
Director, National Board of Fur Farms, Montana Fur Breeders Association.

CENTRAL WISCONSIN FUR BREEDERS ASSOCIATION.

Senator RUSSELL B. LONG,
Chairman, Senate Committee on Finance.

We are writing this letter in support of the statement of the National Board of Fur Farm Organization, Inc. This organization receives universal support and speaks for the entire mink ranching industry in the United States.

Our association operates in the central part of the state of Wisconsin. At this time it is comprised of only 12 members. Last year, 1966, there were 22 members.

A local feed distributor reports that five (5) years ago, he supplied to local ranchers with ready-mix feed. Thirty (30) of these ranchers have pelted out. He now supplies 40 ranchers with feed. This supplier is demanding payment upon delivery.

Credit difficulties with Auction Companies have mounted to the point where they have dropped accounts which they had several years. "Some 25 years." To preferred, good risk ranchers, they are now lending $5.00 to $7.50 whereas last year they would fully lend $10.00 per kit.

Many small ranchers in this area have gone out to work, leaving their families to care for the mink. Large ranchers have cut their labor force by ⅓ to ½.

We are having a hard time getting remaining membership out to meetings. Members are striving to hang on for the remainder of this year, hoping for better prices, but have the feeling this is the last year they can operate without relief from foreign imports.

Almost all the members have raised mink all their lives and are at a loss to know where to make a living, if mink pelts remain at their present low price.

Sincerely,

JOE HEINDL, Jr.,
President.
CARL SPINDLER,
Director of National Board.
LEONARD R. PURVIS,
Secretary.

TRIBBY MINK RANCH, INC.,
Marion, Wis.

Senator RUSSELL B. LONG,
Chairman, Senate Committee on Finance,
Washington, D.C.

GENTLEMEN: The drastic drop in mink pelt prices since December 1966 has caused many hardships, financial losses, even bankruptcies undeclared as yet. Many ranchers know they are going to pelt out this coming pelting season but dare not say so now for fear of losing their hired help before they can get their animals pelted and sent to market, thus causing them the further hardship of trying to bring their crop through to pelting time without sufficient help, only time will tell how many there are in that category.

There are only 15 ranchers that are members of our Chain of Lakes Mink Association, but actually I only know of two ranches that are definitely pelting out this December. There are two more that may pelt out, but are withholding their final decision until the last minute hoping the market might get better by then.

I have been to many rancher meetings, and have heard expressions from hundreds of ranchers, many of them young men quite heavily burdened with debts, many of these are bankrupt right now and don't know it yet. This last statement is a prediction, not a fact, because a fact is something that can be proved. Overall my mental picture of the mink industry is a rather gloomy one. The above statements are true as I know them, but I realize they are not facts. I will state my own case as facts.

I am 67 years old, my family consists of my wife, and one son 21 years old. We three incorporated in 1965 to make it possible for me to retire and draw social security.

Last year we sold 2110 pelts at an average of $14.68 net, the other 90 pelts from the 1966 crop are not sold yet, when they are they will bring the average down below $14.50, which is approximately $1.00 below our cost of production for 1966, making a loss of $1.00 per pelt.

In 1965 our average was $18.49 while our cost of production was approximately $14.50, giving us a profit of approximately $4.00 per pelt.

There are several reasons why our loss was not more than $1.00 per pelt in 66. #1 Our herd consists of the so called higher colored mink which the Scandinavian countries do not have in quantity or quality as yet. #2 We sold most of our pelts in December before the drastic price drop. For instance certain types of mink that sold from $18.00 to $25.00 for males, and from $8.00 to $14.00 for females in December in the so called higher colors, dropped from 20 to 30% in June, but they were at least mildly in demand, but the colors that are sold in quantities from the Scandinavian countries, such as pastel, and mediocre darks had practically no demand unless they were sold ridiculously low. Some ranchers just had to sell to meet their obligations so they took what they could get, which was as low as $3.00 for females, and $5.00 for males, an average of $4.00 per pelt. I do not know what their cost of production was but $15.00 would be very close.

Our chances for keeping our heads above water for 1967 are better than most because of the colors we have, but my son has already told me that if things don't break in 1968 he wants out, and I don't blame him, and if he leaves I'll have to pelt out also.

If Bill #HR6694 could be passed and put into effect before Dec. 1967 it would help everybody, but even if it is passed and doesn't go into effect until after the first of January 1968 the mink rancher population will decrease considerably by one year from now.

Yours truly,

CHAIN O'LAKES MINK ASSOCIATION,
DAVID TRIBBY, *President.*
RUEBEN BUETTNER, *Secretary,*
EMIL O. WIESMAN,
National Board Director.

INDIAN HEAD FUR BREEDERS ASSOCIATION,
Hayward, Wis.

Hon. RUSSELL B. LONG,
Chairman, Senate Committee on Finance,
Washington, D.C.

DEAR SENATOR: Northern Wisconsin has long been an economically depressed area in search of industry to improve our living standards without constant Government aids. Fur farming has played an important part in lifting these standards and providing decent incomes to many families living in this area.

Just three years ago Sawyer County, Wisconsin had in the Indian Head Fur Breeders Association over 22 ranches producing over ¾ million dollars annually. From Washington this amount perhaps does not appear large but our county has less than ten thousand people so this is a factor in our economy.

Our ranches supported over fifty families directly and of course with most of our money being spent locally many other people benefited from fur farming. As an example our ranch bought $8,000 worth of feed from our local feed mill thus aiding employment in the community. From your own home state, Senator Long, we buy ton upon tons of chicken by-products in this way we aid your community.

With the vast increase in imports of mink skins our market has dropped so low that we have lost over 12 of our Indian Head members with the possibility of more going out this year. Our area boasted a feed supply plant costing close to $200,000 it is now shut down and the men are out of work. Last March our own ranch employed two full time men, both have had to be let go leaving only my wife and myself to do the entire job.

As president of our group of ranchers I have tried to lay before you the plight of the American fur farmer from conditions brought on by the imports that have taken away the market we have worked so hard to build.

I trust the Senate Committee on Finance will support the statement of the National Board of Fur Farm Organizations.

Thank you.

ROBERT D. FAIRFIELD,
President.
Mrs. HELEN KAMIS,
Secretary.
(Hospitalized, no signature.)

(A bill, S. 612, to regulate imports of milk and dairy products, and for other purposes, follows:)

MILK AND DAIRY PRODUCTS IMPORTS*

90TH CONGRESS
1ST SESSION

S. 612

IN THE SENATE OF THE UNITED STATES

JANUARY 24, 1967

Mr. PROXMIRE (for himself, Mr. AIKEN, Mr. ALLOTT, Mr. BREWSTER, Mr. BURDICK Mr. CARLSON, Mr. CHURCH, Mr. COOPER, Mr. CURTIS, Mr. DIRKSEN, Mr. DOMINICK, Mr. EASTLAND, Mr. ERVIN, Mr. FANNIN, Mr. GRUENING, Mr. HARRIS, Mr. HART, Mr. HARTKE, Mr. HRUSKA, Mr. INOUYE, Mr. JACKSON, Mr. JORDAN of Idaho, Mr. KUCHEL, Mr. LONG of Missouri, Mr. MAGNUSON, Mr. MCCARTHY, Mr. MCGOVERN, Mr. MILLER, Mr. MONDALE, Mr. MONRONEY, Mr. MORSE, Mr. MUNDT, Mr. NELSON, Mr. PROUTY, Mr. SCOTT, Mr. SPARKMAN, Mr. SYMINGTON, Mr. THURMOND, Mr. YOUNG of North Dakota, Mr. YOUNG of Ohio, Mr. MURPHY, Mr. YARBOROUGH, Mr. PEARSON, Mr. MOSS, Mr. RANDOLPH, Mr. HANSEN, Mr. TOWER, Mr. HOLLINGS, Mr. BAYH, Mr. MCGEE, Mr. BIBLE, Mr. HICKENLOOPER, Mr. COTTON, Mr. MCCLELLAN, Mr. TALMADGE, and Mr. BAKER) introduced the following bill; which was read twice and referred to the Committee on Agriculture and Forestry

A BILL

To regulate imports of milk and dairy products, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Dairy Import Act of 1967".

SEC. 2. No imports of dairy products shall be admitted into the United States for consumption except pursuant to

II

*Witnesses testifying on this subject, pp. 115–136.
Communications received by the committee on this subject, pp. 136–153 and p. 183.

authorizations issued by the Secretary of Agriculture in accordance with the provisions of this Act.

SEC. 3. No authorizations for imports of dairy products shall be issued by the Secretary which would result in total imports for consumption in any calendar year of butterfat or nonfat milk solids, in any form, in excess of the respective average annual quantities thereof which were admitted for consumption during the five calendar years 1961 through 1965.

SEC. 4. In the event that total annual domestic consumption of milk and milk products in any calendar year shall be greater or less than the average annual domestic consumption of milk and milk products during the five calendar years 1961 through 1965, the total volume of imports for such calendar year authorized under section 3 shall be increased or decreased by a corresponding percentage. For the purposes of this Act, the Secretary may estimate such total annual domestic consumption on a quarterly basis and reflect adjustments of such estimates in the level of imports authorized in subsequent quarters or in the subsequent year. In computing or estimating such annual domestic consumption under this Act, milk and milk products used in Federal distribution programs shall be excluded.

SEC. 5. The President may permit, if he finds such action is required by overriding economic or national security interests of the United States, additional quantities of imports of any dairy product. Additional imports permitted under this section shall be admitted for consumption under special authorizations issued by the Secretary. No additional imports shall be admitted for consumption under this section at a time when prices received by dairy farmers for milk on national average as determined by the Secretary are at a level less than parity, unless the Secretary shall, at the time such imports are authorized, remove from the domestic market, in addition to and separate from other price support purchases and operations, a corresponding quantity of dairy products. The cost of removing such dairy products from the domestic market shall be separately reported and shall not be charged to any agricultural program.

SEC. 6. "Dairy products" for the purpose of this Act includes all forms of milk and dairy products, butterfat, nonfat milk solids, and any combination or mixture thereof, and includes also any article, compound, or mixture containing 5 per centum or more of butterfat, or nonfat milk solids, or any combination of the two.

SEC. 7. The Secretary may prescribe such rules and regulations as he deems necessary for the effective administration of this Act.

SEC. 8. Nothing contained in this Act shall be construed to repeal section 22 of the Agricultural Adjustment

Act or any import limitation established thereunder; but the total annual quantitative limitations on imports of butterfat and nonfat milk solids prescribed by this Act shall prevail, and all imports authorized under said section 22 or any other law shall be included in computing such total.

Senator CURTIS. Senator Gaylord Nelson?

Senator Proxmire?

Then we will call Mr. E. M. Norton, secretary of the National Milk Producers Federation.

STATEMENT OF E. M. NORTON, SECRETARY, NATIONAL MILK PRODUCERS FEDERATION; ACCOMPANIED BY PATRICK B. HEALY, ASSISTANT SECRETARY; AND M. R. GARSTANG, GENERAL COUNSEL

Mr. NORTON. My name is E. M. Norton, secretary of the National Milk Producers Federation, 30 F Street, Washington, D.C. With me is Mr. Patrick B. Healy, assistant secretary, same address, and Mr. M. R. Garstang, our general counsel, same firm, same address.

I would like, with your permission, Mr. Chairman, to file this entire statement for the record and read certain excerpts of it.

Senator CURTIS. Very well, without objection that will be done.

Mr. NORTON. The National Milk Producers Federation is a national farm organization. It represents dairy farmers and the dairy cooperative associations which they own and operate.

Practically every form of dairy product produced in any substantial volume in the United States is produced and marketed by dairy cooperative plants represented by the federation.

The federation is, therefore, directly concerned with the adverse effect of excessive dairy imports on American dairy farmers and on the supply of milk produced in this country. We are also directly concerned with the effect of excessive imports on dairy plants operated in this country and with the effect of such imports on the domestic market for dairy products.

In addition, there is presently in effect an important agricultural program authorized by Congress for milk and dairy products. Under this program, prices paid to farmers for milk are supported at levels ranging between 75 and 90 percent of parity. This is accomplished by removing surplus supplies from the market through purchases made by the Commodity Credit Corporation.

Parity is a formula for measuring the relationship between the prices farmers receive for the commodities they sell as compared with the prices farmers pay for the things they buy.

One of the objectives of the dairy program is to maintain the purchasing power of dairy farmers as an important factor in the national economy.

Another objective, of great importance to the security of the Nation and to its general welfare, is to assure adequate supplies of essential foods produced from sources within our own shores. We should be most foolhardy to rely on an overseas source of supply of dairy products which could not be depended upon in times of emergency.

Neither this important agricultural program, nor the American dairy industry as we know it today, can exist under present conditions of world trade without effective import controls.

We have no quarrel with the principle that foreign trade should be expanded, provided such trade is beneficial and not destructive.

Broad general principles of free trade, however idealistic they may sound in the abstract, are often impractical and unrealistic when applied to specific commodities. This is particularly true when they are considered in the light of the adverse conditions which prevail today in world trade.

Beneficial foreign trade does not result to the United States from excessive imports of dairy products which are already in surplus supply and which we do not need. Such imports burden the support program with millions of dollars of wasted and unnecessary cost, undermine the Nation's agricultural production and markets, and result in loss of opportunities for our own people.

This country is committed to a high standard of living, high price levels, high wage rates, and the maintenance of agricultural prices at levels which will protect the purchasing power of farmers. As a result of these policies, our agricultural prices, in many cases, even though still below parity, are far above world price levels.

As long as this condition exists, import controls will be necessary to prevent world surpluses from being drawn to our more attractive stabilized markets. The same price differences make export price adjustments necessary if we are to retain a fair share of the world agricultural market.

For example, butter is supported at a price of 67¼ cents per pound in New York under the price support program. At the same time, butter has been available in Europe for export to the United States at about 20 cents per pound. The product came in as butterfat-sugar mixtures in evasion of the quota on butter.

Senator CURTIS. Is that an ice cream mix largely?

Mr. NORTON. Yes, sir. Shipping charges run about 3 or 4 cents per pound and the tariff on such mixtures is about 4 or 5 cents per pound. Furthermore, there is a profit on the sugar ingredient, which also was imported in evasion of the sugar quota.

In our statement before the U.S. Tariff Commission in May of this year, we quoted figures showing that the American price for butterfat was more than three times as high as the European export price and that the American sugar price was about two times the European price.

These are matters which cannot be ignored without disastrous consequences to our own country. Other countries have been more astute at recognizing the realities of foreign trade and in protecting their agricultural programs and their own people against a destructive level of imports than has the United States.

A reappraisal of our foreign trade policies by Congress in a more practical and realistic light is long overdue. The European Common Market has sharpened the need for such a review by rendering obsolete earlier concepts of foreign trade, particularly in the agricultural field.

Aside from this, the extremely wide variations in prices, wages, costs, and other factors which exist between different countries made the general application of free trade policies impractical.

We believe Congress is becoming increasingly aware of the fact that our foreign trade policies are seriously out of line with realities. The large number of Members of Congress who have introduced import control bills so indicates. For example, 59 Senators and 198 Members of the House have introduced legislation to provide more effective quotas on dairy imports.

Import bills on other commodities also have an impressive number of sponsors in both the Senate and the House.

The Dent bill, H.R. 478, passed the House by a vote of 340 to 29.

We compliment this committee on its foresight in initiating this hearing to take a new look at foreign trade policies and to explore the need for import quotas. We are grateful for an opportunity to present the need for more effective import controls on dairy products.

The federation helped develop and is strongly supporting the proposed Dairy Import Act of 1967. As indicated above, this legislation has been introduced by 59 Senators and 198 Members of the House of Representatives.

I understand, Mr. Chairman, a question was asked this morning whether section 22 was an adequate remedy, and the Secretary of Agriculture indicated that it was much more expedient to use section 22 than to go through this "cumbersome" business of congressional hearings on imports. In other words, that the wheels of Congress were much slower and less flexible than section 22 action. But I would point out that it took one-half of the U.S. Senators and almost 200 Congressmen to bring this to the attention of the Secretary of Agriculture before we could get action under section 22.

The Dairy Import Act of 1967 would provide a fair and practical approach to the dairy import problem. Furthermore, it would be effective, and it would put a stop to the long history of evasion and subterfuge which importers and foreign nations have engaged in under our present laws. It would be efficient, because it would be self-activating at the prescribed level of imports and would bypass the present time-consuming and unsatisfactory proceedings before the U.S. Tariff Commission.

Basically, the Dairy Import Act would limit imports by quotas to the average level imported during the historical base period of 1961–65. The years 1966 and 1967 would not be included in the base period, because these were not normal import years.

Both 1966 and 1967 were characterized by a great flood of evasion-type imports. These were primarily butterfat-sugar mixtures and Colby cheese. Neither of these products are normal historical imports. The butterfat-sugar mixtures were imported in open and flagrant evasion of import controls on butterfat and on sugar. The Colby cheese, practically identical with Cheddar cheese and used for the same purpose, was used to evade the import quota on Cheddar cheese.

Limiting total dairy product imports to the 1961–65 average is more than fair to foreign nations, because these years include relatively high levels of imports which have been steadily increasing.

The Dairy Import Act would permit foreign nations to share in future developments of the domestic market. This would be accomplished by increasing or decreasing the permitted level of imports in proportion to increases or decreases in domestic consumption.

New products could be allocated a share in the imports, but this would be done within the limits of the overall quota. In the same manner, special needs could be recognized by varying the import level of particular products within the overall quota limit.

Provision is made also for emergency action and for overriding considerations of national interest to be exercised by the President.

If additional imports were authorized by the President under the emergency provisions at a time when domestic market prices were below parity, the adverse effect of the imports on the market would be offset by removing from the domestic market a corresponding quantity of dairy products by the Commodity Credit Corporation.

It is our firm conviction that quotas are the most effective form of import control and also that they are the fairest to all parties concerned.

Tariffs have been rendered meaningless by currency devaluation and manipulation, by steadily increasing inflation, and by export subsidies in whatever amounts are necessary to move the product into our markets. The volume of imports which will enter under a fixed tariff is uncertain and cannot be predicted for future years.

On the other hand, when quotas are set, foreign nations know exactly what they can depend on in the American market, and they can adjust their production and marketing accordingly.

In the same manner, American producers know what the volume of imports will be, not only currently but for several years ahead, and they can make long-range plans, as they must do, if this country is to enjoy assured supplies of an essential food.

Furthermore, it is our belief that a definitely known volume of imports causes less disruption of the market than would the same volume when coupled with uncertainty as to whether the imports would stop at that level or possibly go far beyond it.

We have just been through a situation where imports got completely out of hand. The effect was to drive prices to the support floor, add many millions of dollars of wasted and unnecessary cost to the support program, and demoralize and discourage American dairy farmers.

Legislation is desperately needed to prevent this from happening again. Unless Congress steps in to bring some measure of dependability and respectability to our dairy import controls, we fear another similar fiasco will result. The plans for it are already being explored by importers and foreign nations.

Import controls are presently in effect on some dairy products under section 22 of the Agricultural Adjustment Act.

This section, as I pointed out before, is not adequate, and controls under it have been weak and ineffective. For example, it has been characterized by a long history of easy and repeated evasion of its quotas.

For example, a quota was placed on butter in an effort to regulate imports of butterfat. This was evaded by imports of butteroil. A quota was then placed on butteroil. This was evaded by imports of Exylone, a product composed of butterfat to which a small percentage of sugar had been added. A quota was placed on butterfat-sugar mixtures containing 45 percent or more of butterfat. This was promptly evaded by imports of a butterfat-sugar mixture containing 44 percent of butterfat. A quota was then imposed under the sugar law on butterfat-sugar mixtures containing more than 25 percent of sugar. This was promptly evaded by imports of butterfat-sugar mixtures containing 24 percent sugar.

In the same manner, a quota on Cheddar cheese was evaded by imports of Colby cheese. Colby cheese is used for the same purpose as Cheddar cheese. It is not a normal historical import.

Senator CURTIS. Except for what, the age?

Mr. NORTON. Yes, sir; it is not aged.

A quota on cheese in original loaves is evaded by simply cutting the loaves in half and then putting them back together again.

During 1966 and the first half of 1967, there was in effect a finding by the Tariff Commission that imports of butter in excess of 707,000 pounds would interfere with the support program. A butter oil quota was in effect at 1,200,000 pounds. In 1966, butterfat-sugar mixtures imported in evasion of these quotas totaled 106 million pounds. In the first half of 1967, the evasion imports were 92 million pounds, the equivalent of an annual rate of 184 million pounds.

During the same period, 1966 and the first half of 1967, there was in effect a finding by the Tariff Commission that imports of Cheddar cheese in excess of 2,780,100 pounds would interfere with the price support program. In 1966, Colby cheese imported in evasion of this quota totaled 46 million pounds. Colby cheese imports in the first half of 1967 were 48 million pounds, the equivalent of an annual rate of 96 million pounds.

That new legislation is needed to provide more permanent and effective controls is forcefully pointed up by the recent Tariff Commission hearing brought to c ose loopholes in previous quotas. The level of imports recommended by the Commission was unreasonable and unrealistic, and its suggested quotas left additional loopholes open for future evasion.

It was necessary in this instance for the President, after conferences with the Secretary of Agriculture and dairy leaders, to override the Commission's recommendations by establishing much lower levels of imports and by including frozen cream in the new controls.

Even so, the new controls are again weak and inconclusive, particularly with respect to evaporated or condensed milk and cream—these two products have been left open—and retail size packages of butterfat-sugar mixtures, and other products.

There is before the Bureau of Customs now an inquiry about consumer-size packaging of a butterfat-sugar mixture containing 90 percent butterfat. If it is approved, we are wide open again. These imports could again reach the same size they were last year. Imports of evaporated milk are also being explored.

We are concerned that the way may again have been left open for the writing of another chapter in the already too long history of "Invasion by Evasion."

Another reason section 22 controls are inadequate is that they are available only to protect certain agricultural programs. Legislation is needed not only to provide more positive controls but also to provide coverage for agricultural commodities which may not be subject to a support program.

We, therefore, urge you, Mr. Chairman, most earnestly to reevaluate the import control program for dairy products and to provide positive and effective controls under the proposed "Dairy Import Act of 1967."

Thank you.

Senator CURTIS. Do I understand that by resorting to mixtures has been the method by which the importers have substantially boosted their imports in the last year or so?

Mr. NORTON. Well, that is one way. Another way, Mr. Chairman, is that the original import proclamation back in 1953, prescribed

Italian-type cheese in original loaves as the only type under quota. What the importers and foreign governments did was merely cut the cheese in two, wax both faces of it, put it in the same box and it then became cheese not in original loaves. So you see it isn't always just a mixture.

Senator CURTIS. This mixture, has this imported mixture been very sizable?

Mr. NORTON. Oh, yes, it has.

Senator CURTIS. And a number of American manufacturing companies of ice cream have used it in very substantial quantities.

Mr. NORTON. Right. About 200 million pounds of this mixture came in during 1966 and the first half of 1967.

Senator CURTIS. About 200 million pounds.

About what is our total import of butterfat?

Mr. NORTON. Well, in the first half of 1967, imports in terms of milk equivalent were running at an annual rate of about 4.4 billion pounds.

Senator CURTIS. And you feel that while import restrictions based upon a historical base period of 1961–65 would be a considerable help to the American dairy industry, do you also feel that is rather a reasonable period for the foreign producers?

Mr. NORTON. Yes, sir; we do, because in 1966 and the first half of 1967 is when the evasion imports of ice cream mixes and Colby cheese became most prevalent.

Senator CURTIS. If something isn't done there will be new innovations——

Mr. NORTON. Excuse me.

Senator CURTIS (continuing). To increase the imports; would they not?

Mr. NORTON. Pardon, I didn't hear you.

Senator CURTIS. I say if Congress does not take some action there are apt to be new innovations.

Mr. NORTON. Yes.

Senator CURTIS. On how to increase the imports; isn't that right?

Mr. NORTON. Yes, sir.

Senator CURTIS. Now, why is the number of dairy cattle down one-third? The Secretary of Agriculture referred to that this morning.

Mr. NORTON. Well, I understood that he indicated that imports had nothing to do with the declining herds. Herds are being dispersed and are declining. I would feel sure that, as in any other business, the decision to stay in business relates somewhat to profit or price. Dairy herds are dispersing and I would relate that directly to the effect of imports on price and on the uncertainty of future markets.

If you have imports at a level that the support program must be in effect at all times, you are at the very minimum of what you can make in the business. I would think imports have a very direct relationship to declining herds.

Senator CURTIS. Yes. It would be quite a factor in our economy if housing starts dropped one-third.

Mr. NORTON. That is right.

Senator CURTIS. If one-third of any other manufacturing capacity were to be discontinued, and I think it is a very significant figure.

Mr. NORTON. Yes.

Senator CURTIS. Because the consumption of dairy products, the per capita consumption of dairy products has not decreased, has it?

Mr. NORTON. If it has gone, down, it has been very slight. Now it happened, Mr. Curtis, that imports last year were extremely heavy and rising rapidly. This must have had some effect on price and it must have had some effect on decisions to stay in or go out of business.

Senator CURTIS. And an effect on the U.S. Treasury.

Mr. NORTON. Yes, sir; considerable.

Senator CURTIS. I think that is all, Mr. Chairman.

The CHAIRMAN. Thank you very much, sir. I will read this statement. I came in while you were presenting it, but I will certainly study it.

(Mr. Norton's prepared statement, with a supplemental statement submitted by the National Milk Producers Federation, follows:)

PREPARED STATEMENT OF E. M. NORTON, SECRETARY, NATIONAL MILK PRODUCERS FEDERATION

The National Milk Producers Federation is a national farm organization. It represents dairy farmers and the dairy cooperative associations which they own and operate.

Some of these cooperatives are bargaining associations. They enable farmers, by acting together, to bargain more effectively for the sale of raw milk to processors and handlers.

In other cooperatives, farmers have banded together to build and operate their own dairy plants. Through these plants, they process, on a cost basis, the milk produced on their farms and market it in the form of finished fairy products.

Practically every form of dairy product produced in any substantial volume in the United States is produced and marketed by dairy cooperative plants represented by the Federation.

The Federation is, therefore, directly concerned with the adverse effect of excessive dairy imports on American dairy farmers and on the supply of milk produced in this country. We are also directly concerned with the effect of excessive imports on dairy plants operated in this country and with the effect of such imports on the domestic market for dairy products.

In addition, there is presently in effect an important agricultural program authorized by Congress for milk and dairy products. Under this program, prices paid to farmers for milk are supported at levels ranging between 75 and 90 percent of parity. This is accomplished by removing surplus supplies from the market through purchases made by the Commodity Credit Corporation.

Parity is a formula for measuring the relationship between the prices farmers receive for the commodities they sell as compared with the prices farmers pay for the things they buy.

One of the objectives of the dairy program is to maintain the purchasing power of dairy farmers as an important factor in the national economy.

Another objective, of great importance to the security of the nation and to its general welfare, is to assure adequate supplies of essential foods produced from sources within our own shores. We would be most foolhardy to rely on an overseas source of supply of dairy products which could not be depended upon in times of emergency.

Neither this important agricultural program, nor the American dairy industry as we know it today, can exist under present conditions of world trade without effective import controls.

We have no quarrel with the principle that foreign trade should be expanded, provided such trade is beneficial and not destructive.

Broad general principles of free trade, however idealistic they may sound in the abstract, are often impractical and unrealistic when applied to specific commodities. This is particularly true when they are considered in the light of the adverse conditions which prevail today in world trade.

Beneficial foreign trade does not result to the United States from excessive imports of dairy products which are already in surplus supply and which we do not need. Such imports burden the support program with millions of dollars of wasted and unnecessary cost, undermine the nation's agricultural production and markets, and result in loss of opportunities for our own people.

This country is committed to a high standard of living, high price levels, high wage rates, and the maintenance of agricultural prices at levels which will protect the purchasing power of farmers. As a result of these policies, our agricultural prices, in many cases, even though still below parity, are far above world price levels.

As long as this condition exists, import controls will be necessary to prevent world surpluses from being drawn to our more attractive stablized markets. The same price differences make export price adjustments necessary if we are to retain a fair share of the world agricultural market.

For example, butter is supported at a price of 67¼ cents per pound in New York under the price support program. At the same time, butter has been available in Europe for export to the United States at about 20 cents per pound. The product came in as butterfat-sugar mixtures in evasion of the quota on butter. Shipping charges run about 3 or 4 cents per pound and the tariff on such mixtures is about 4 or 5 cents per pound. Furthermore, there is a profit on the sugar ingredient, which also was imported in evasion of the sugar quota.

In our statement before the United States Tariff Commission in May of this year, we quoted figures showing that the American price for butterfat was more than 3 times as high as the European export price and that the American sugar price was about 2 times the European price.

These are matters which cannot be ignored without disastrous consequences to our own country. Other countries have been much more astute at recognizing the realities of foreign trade and in protecting their agricultural programs and their own people against a destructive level of imports than has the United States.

A reappraisal of our foreign trade policies by Congress in a more practical and realistic light is long overdue. The European Common Market has sharpened the need for such a review by rendering obsolete earlier concepts of foreign trade, particularly in the agricultural field.

Aside from this, the extremely wide variations in prices, wages, costs, and other factors which exist between different countries make the general application of free trade policies impractical.

We believe Congress is becoming increasingly aware of the fact that our foreign trade policies are seriously out of line with realities. The large number of members of Congress who have introduced import control bills so indicates. For example, 59 Senators and 198 members of the House have introduced legislation to provide more effective quotas on dairy imports.

Import bills on other commodities also have an impressive number of sponsors in both the Senate and the House.

The Dent bill, H.R. 478, passed the House by a vote of 340 to 29.

We compliment this Committee on its foresight in initiating this hearing to take a new look at foreign trade policies and to explore the need for import quotas. We are grateful for an opportunity to present the need for more effective import controls on dairy products.

The Federation helped develop and is strongly supporting the proposed "Dairy Import Act of 1967." As indicated above, this legislation has been introduced by 59 Senators and 198 members of the House of Representatives.

It would provide a fair and practical approach to the dairy import problem. Furthermore, it would be effective, and it would put a stop to the long history of evasion and subterfuge which importers and foreign nations have engaged in under our present laws. It would be efficient, because it would be self activating at the prescribed level of imports and would bypass the present time-consuming and unsatisfactory proceedings before the United States Tariff Commission.

Basically, the Dairy Import Act would limit imports by quotas to the average level imported during the historical base period of 1961–1965. The years 1966 and 1967 would not be included in the base period, because these were not normal import years.

Both 1966 and 1967 were characterized by a great flood of evasion type imports. These were primarily butterfat-sugar mixtures and Colby cheese. Neither of these products are normal historical imports. The butterfat-sugar mixtures were imported in open and flagrant evasion of import controls on butterfat and on sugar. The Colby cheese, practically identical with cheddar cheese and used for the same purpose, was used to evade the import quota on cheddar cheese.

Limiting total dairy product imports to the 1961–1965 average is more than fair to foreign nations, because these years include relatively high levels of imports which have been steadily increasing.

The Dairy Import Act would permit foreign nations to share in future developments of the domestic market. This would be accomplished by increasing or decreasing the permitted level of imports in proportion to increases or decreases in domestic consumption.

New products could be allocated a share in the imports, but this would be done within the limits of the overall quota. In the same manner, special needs could be recognized by varying the import level of particular products within the overall quota limit.

Provision is made also for emergency action and for overriding considerations of national interest to be exercised by the President.

If additional imports were authorized by the President under the emergency provisions at a time when domestic market prices were below parity, the adverse effect of the imports on the market would be offset by removing from the domestic market a corresponding quantity of dairy products by the Commodity Credit Corporation.

It is our firm conviction that quotas are the most effective form of import control and also that they are the fairest to all parties concerned.

Tariffs have been rendered meaningless by currency devaluation and manipulation, by steadily increasing inflation, and by export subsidies in whatever amounts are necessary to move the product into our markets. The volume of imports which will enter under a fixed tariff is uncertain and cannot be predicted for future years.

On the other hand, when quotas are set, foreign nations know exactly what they can depend on in the American market, and they can adjust their production and marketing accordingly.

In the same manner, American producers know what the volume of imports will be, not only currently but for several years ahead, and they can make long range plans, as they must do, if this country is to enjoy assured supplies of an essential food.

Furthermore, it is our belief that a definitely known volume of imports causes less disruption of the market than would the same volume when coupled with uncertainty as to whether the imports would stop at that level or possibly go far beyond it.

We have just been through a situation where imports got completely out of hand. The effect was to drive prices to the support floor, add many millions of dollars of wasted and unnecessary cost to the support program, and demoralize and discourage American dairy farmers.

Legislation is desperately needed to prevent this from happening again. Unless Congress steps in to bring some measure of dependability and respectability to our dairy import controls, we fear another similar fiasco will result. The plans for it are already being explored by importers and foreign nations.

Import controls are presently in effect on some dairy products under Section 22 of the Agricultural Adjustment Act.

This section has not been adequate, and controls under it have been weak and ineffective. It has been characterized by a long history of easy and repeated evasion of its quotas.

For example, a quota was placed on butter in an effort to regulate imports of butterfat. This was evaded by imports of butteroil. A quota was then placed on butteroil. This was evaded by imports of Exylone, a product composed of butterfat to which a small percentage of sugar had been added. A quota was placed on butterfat-sugar mixtures containing 45 percent or more of butterfat. This was promptly evaded by imports of a butterfat-sugar mixture containing 44 percent of butterfat. A quota was then imposed under the sugar law on butterfat-sugar mixtures containing more than 25 percent of sugar. This was evaded by imports of butterfat-sugar mixtures containing 24 percent sugar.

In the same manner, a quota on cheddar cheese was evaded by imports of Colby cheese used for the same purpose as cheddar cheese and not a normal historical import.

A quota on cheese in original loaves is evaded by simply cutting the loaves in half and then putting them back together again.

During 1966 and the first half of 1967, there was in effect a finding by the Tariff Commission that imports of butter in excess of 707,000 pounds would interfere with the support program. A butteroil quota was in effect at 1,200,000 pounds. In 1966, butterfat-sugar mixtures imported in evasion of these quotas totaled 106 million pounds. In the first half of 1967, the evasion imports were 92 million pounds, the equivalent of an annual rate of 184 million pounds.

During the same period, 1966 and the first half of 1967, there was in effect a finding by the Tariff Commission that imports of cheddar cheese in excess of 2,780,100 pounds would interfere with the price support program. In 1966, Colby cheese imported in evasion of this quota totaled 46 million pounds. Colby cheese imports in the first half of 1967 were 48 million pounds, the equivalent of an annual rate of 96 million pounds.

That new legislation is needed to provide more permanent and effective controls is forcefully pointed up by the recent Tariff Commission hearing brought to close loopholes in previous quotas. The level of imports recommended by the Commission was unreasonable and unrealistic, and its suggested quotas left additional loopholes open for future evasion.

It was necessary for the President, after conferences with the Secretary of Agriculture and dairy leaders, to override the Commission's recommendations by establishing much lower levels of imports and by including frozen cream in the new controls.

Even so, the new controls are again weak and inclusive, particularly with respect to evaporated or condensed milk and cream, retail size packages of butterfat-sugar mixtures, and other products.

We are concerned that the way may again have been left open for the writing of another chapter in the already too long history of "Invasion by Evasion."

Another reason Section 22 controls are inadequate is that they are available only to protect certain agricultural programs. Legislation is needed not only to provide more positive controls but also to provide coverage for agricultural commodities which may not be subject to a support program.

Without such legislation, the American dairy industry can never rise above a support program, because, as soon as it becomes self-sufficient, import controls will be removed and imports will force it back into a new support program.

We, therefore, urge you most earnestly to reevaluate the import control program for dairy products and to provide positive and effective controls under the proposed "Dairy Import Act of 1967."

Supplemental Statement of the National Milk Producers Federation on Evasion and Subterfuge Under Present Import Laws

This supplemental statement is submitted in response to a request of the Committee that we supply more detailed information concerning the evasion and subterfuge practiced by importers and foreign nations in connection with import quotas imposed under Section 22 of the Agricultural Adjustment Act.

EVASION AND SUBTERFUGE

Section 22 has been marred by a long history of repeated and flagrant evasion of the import quotas.

With high profits at stake, foreign nations and American importers have not hesitated to exploit every possible loophole in the orders prescribing quotas. They have been quite successful in their efforts.

For this, in most cases, they have been rewarded, not only by handsome profits, but also by being granted additional quotas based on the history of the evasion imports. In the most recent hearing, held this year, substantial increases in the import quotas were granted on the basis of the evasion imports of butterfat-sugar mixtures and Colby cheese.

On only one occasion, that of exylone, a butterfat-sugar mixture containing a high percentage of butterfat, was the evasion issue faced squarely and forthrightly. In that case, the Tariff Commission refused to recognize the subterfuge product as a normal import, and a zero quota was established.

Unfortunately, even this one bright spot is tarnished, because the exylone quota was limited to products containing 45 percent or more of butterfat, and it, in turn, was promptly evaded by imports of junex, a butterfat-sugar mixture containing 44 percent butterfat.

Beginning of section 22 quotas

Although Section 22 had been enacted in 1935, and although imports had become such a serious threat that Congress had to step in to control them, it was not until 1953 that import quotas were established under Section 22 on dairy products.

The Congressional controls were applied for several years immediately preceding 1953 under Section 104 of the Defense Production Act.

In 1953, import controls were established under Section 22 at a time when a further extension of controls by Congress was pending. It is obvious that the Section 22 controls would not have been provided in 1953, except for the fact that it was necessary for the Administration to do so in order to defeat a further extension of controls under Section 104 of the Defense Production Act. The Presidential Proclamation (No. 3019, June 8, 1953) frankly recognized this and made the new controls under Section 22 apply only ". . . in the evant Section 104 of the Defense Production Act of 1950, as amended, expires under its present terms . . .".

On the basis of this action, Congressional controls under the Defense Production Act were not extended and controls were shifted to Section 22 of the Agricultural Adjustment Act.

Since that time, the controls have been evaded and chiseled away to an intolerable degree, and the time has come when Congress must again step in to bring a reasonable measure of effectiveness and respectability to the dairy import policy.

Two of the products which were of initial importance to an import control program were butterfat and cheese.

The Tariff Commission found, in 1953, that imports of butterfat would imperil the support program and set a quota on butter imports of 707,000 pounds.

Butter was the obvious import item at that time. The Department of Agriculture had recommended that the import quota for butter be applied also to butteroil and to cream containing 45 percent or more of butterfat.

The Tariff Commission did not accept this recommendation and thus left open a hole in the dike through which the first great evasion of Section 22 quotas was destined to take place a few years later.

The butteroil evasion

Enterprising importers and foreign nations were not long in discovering and taking advantage of the butteroil opportunity.

In 1956, butteroil imports had reached 1.8 million pounds. This was equivalent to 2.2 million pounds of butter.

In 1957, an annual quota of 1.2 million pounds of butteroil was established under Section 22 (Presidential Proclamation, April 15, 1957). The effect of this was to reward the importers and foreign nations with an increase in the butterfat imports equal to 1.5 million pounds of butter per year.

The exylone evasion

A way to avoid the butteroil quota had been devised by the importers before the quota was ever issued. The letter from the President setting the scope of the butteroil hearing went to the Tariff Commission November 17, 1956. In less than two weeks, on November 28, 1956, the first pilot shipment of exylone arrived. Exylone is butterfat with a small percentage of sugar (8.2%) added.

By the time the quota on butteroil was established in April of 1957, approximately 2.5 million pounds of exylone had already come in through the new break in the dike.

A month after the butteroil proclamation was signed, the President had to start a new proceeding before the Tariff Commission on exylone. Approximately 9 million pounds of exylone were entered before the shipments were stopped by a zero quota.

The exylone proclamation was limited to articles containing 45 percent or more of butterfat, thus inviting evasion by articles containing 44 percent butterfat.

The junex evasion

Two months after the exylone proclamation was signed, the importers were working on a new evasion product containing 44 percent butterfat and about 55 percent sugar. The new product was called junex. For several years junex became involved in the sugar quota and imports were delayed. For the past 5 or 6 years, however, junex has been imported in substantial quantities and has added millions of dollars of unnecessary and wasted cost to the support program.

In 1966, the butterfat imported in butterfat-sugar mixtures in evasion of the quotas was equivalent to approximately 58 million pounds of butter.

The sugar evasion

The evasion history of this product has carried over to the sugar quota.

The Secretary of Agriculture issued a sugar order in July 1966, placing a quota on imports of such mixtures containing more than 25 percent sugar (Federal Register, July 13, 1966, p. 9495).

The Secretary's order was immediately evaded by a butterfat-sugar formula containing 24 percent sugar and 44 percent butterfat.

In the first half of 1967, the butterfat imported in butterfat-sugar mixtures was equivalent to 52 million pounds of butter. This is an annual rate of 104 million pounds of butter.

None of these butterfat-sugar mixtures was a normal historical import. All of them were subterfuge products designed to evade our weak and inadequate import quotas under Section 22 and under the sugar law.

The Colby cheese evasion

When import controls were transferred to Section 22 in 1953, a quota was established on Cheddar cheese of 2,780,100 pounds. This quota remained in effect until July 1 of this year.

In July 1958, the importers and foreign countries obtained a Bureau of Customs ruling that Colby cheese was not subject to the Cheddar cheese quota. Colby cheese is practically identical with Cheddar cheese and is used for the same purpose as Cheddar cheese. Colby cheese is an evasion product and not a normal historical import.

Following the Customs ruling, imports of 500,000 pounds came in during 1958. The import rate increased rapidly to 15 million pounds'in 1961. During the period 1962–65, an attempt was made to control them under voluntary arrangements with some of the principal exporting countries and imports ranged from 10 to 14 million pounds a year.

In 1966, the voluntary arrangements broke down as prices in this country rose and foreign nations saw an opportunity to make a killing in the American market. 1966 imports totaled nearly 46 million pounds.

In the first half of 1967, Colby cheese imports were 54 million pounds equal to an annual rate of 108 million pounds.

The split loaves evasion

The 1953 proclamation under Section 22 established a quota of 9,200,100 lbs. for Italian-type cows milk cheese in original loaves. The quota was increased in 1960 to 11,500,100 pounds.

This quota was originally evaded by simply cutting the loaves in half and then putting them back together again.

More recently the evasion of this quota is taking the form of consumer size cuts or grated cheese.

1966 imports not in original loaves had climbed to 451,000 pounds. January-March 1967 imports had jumped to 277,000 pounds, equal to an annual rate of 1,108,000 pounds.

Processed Italian-type cheese is another potential evasion of this quota.

The 1967 proclamation

Although imports of butterfat-sugar mixtures containing 44 percent butterfat and Colby cheese, both obvious evasion products, had been adding millions of dollars of wasted and unnecessary cost to the support program for many years, no action was taken to control them until 1967. The inadequate sugar regulation of 1966 cut the sugar content of some of the butterfat-sugar mixtures from 55 to 24 percent but left the butterfat content unchanged at 44 percent.

Imports got completely out of hand in 1966, particularly with respect to butterfat-sugar mixtures, Colby cheese, and frozen cream. It is estimated that total 1966 imports added approximately $29 million of unnecessary cost to the support program.

In early 1967, the situation was becoming much worse with some products running at double or more of the already heavy 1966 rate.

It was not until April 1967 that the Tariff Commission investigation was initiated, and controls were not applied until July 1, 1967.

This was many years after the need for controls arose and more than 12 months after the situation became especially critical in the first half of 1966. It was after many millions of dollars of unnecessary cost to the price support program had been incurred. And, most importantly, it was after half of the United States Senate and almost half of the House of Representatives had introduced legislation to end imports by subterfuge and establish a practical and respectable import policy.

The 1967 proclamation put a quota of 6 million pounds on Colby cheese, 2.6 million pounds on butterfat-sugar mixtures containing over 5.5 percent butterfat, 1.5 million gallons of frozen cream, and raised the cheddar cheese quota from 2.8 million pounds to 10 million pounds.

The effect of this was to reward the Colby evasion with an increased Cheddar quota of over 7 million pounds per year plus 6 million pounds of Colby in the annual quotas. The butterfat-sugar evasion was rewarded with an annual quota of 2.6 million pounds.

Excepted from the quota on products containing over 5.5 percent butterfat are bulk shipments of evaporated or condensed milk and cream. Also excepted are consumer sized packages of Junex and Exylone.

The next great evasion

The 1967 Presidential Proclamation is again weak and inconclusive and is an open invitation to further evasion attempts.

The real drive for evasion may not come for another year. If Congress enacts the "Dairy Import Act of 1967" there will be no further evasion, because that law would deal with the problem from a positive rather than a negative angle and would be self-activating and effective.

There are two reasons why the next evasion may not develop immediately. One is the danger that too soon an evasion may hasten the passage of the Dairy Import Act. The other is that warehouses are stocked with butterfat-sugar mixtures and Colby cheese. Some of the largest dairy companies, we understand, have accumulated imports sufficient to supply their needs for a year ahead.

Nevertheless, the groundwork for the next great evasion is already being laid.

Importers and foreign nations are quietly exploring, in the Bureau of customs, the possibility of evading the new quotas by merely changing the form of the imported butterfat from a butterfat-sugar mixture to evaporated or condensed milk and cream.

The original request for a quota on butterfat-sugar mixtures would have included evaporated or condensed milk or cream in the controls.

However, in the course of the Tariff Commission hearing, and in the final proclamation, a special and specific exception for evaporated or condensed milk and cream was written into the quota on articles containing over 5.5 percent of butterfat.

The effect of this exception is to leave the door wide open under this quota for unlimited imports of butterfat in the form of evaporated or condensed milk and cream.

Another major evasion possibility already being explored in the Bureau of Customs, is the importation of 5 or 10 pound bricks of butterfat-sugar mixtures under the exception in the quota for consumer size packages. The bricks would be 90 percent butterfat, could be wrapped in easily removable wrappers, and could be sold to ice cream manufacturers.

The weak and inadequate wording of the exception for consumer size packages does not require that the product be imported for the retail trade or that it be sold in retail trade. All that is required is that the product be packaged for distribution in the retail trade.

Other loopholes left open by the new proclamation are cut loaves of Italian-type cheese, processed Italian, processed Edam and Gouda, and chocolate crumb.

In view of the loopholes written into the new proclamation, it appears quite likely that the new proclamation may be just another paper gesture, as others have been so many times in the past, which can be used to discourage Congress from enacting effective import controls but which will leave the way open for another round of evasion as soon as Congress looks the other way.

The Chairman. Our next witness is the Honorable William Proxmire, senior Senator from Wisconsin.

Senator Proxmire, we are happy to have you with us today and to hear your views on economic matters with which you are thoroughly versed as chairman of the Joint Economic Committee.

We are also pleased to know your views on dairy products because that is one of your specialties. So you proceed in your own fashion.

STATEMENT OF HON. WILLIAM PROXMIRE, A U.S. SENATOR FROM THE STATE OF WISCONSIN

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

I have a short statement and I won't deliver the whole statement. I will speak for about 5 minutes or so.

I am delighted to have an opportunity to appear before your committee today in support of legislation to curtail dairy imports. Eight members of your committee are cosponsoring my bill to set a quota on the importation of dairy products based on the 1961–65 average.

Although the legislation, S. 612, is now pending before the Senate Agriculture Committee, I think it is entirely appropriate to direct your committee's attention to the Dairy Import Act of 1967 in view of the fact that similar legislation is pending before the House Ways and Means Committee, as well as the nature of today's hearings on import quota legislation.

Dairy imports to the United States have been skyrocketing over the past few years. In 1965, 900 million pounds, milk equivalent of dairy products were shipped into this country. This amount was reasonably close to the 1961–65 average of 832 million pounds. However, imports tripled to an incredible 2.7 billion pounds in 1966 and were being brought into the United States at an annual rate of 4.3 billion pounds when President Johnson moved to curtail imports by a proclamation issued on June 30 under the authority of section 22 of the Agricultural Adjustment Act, as amended.

What caused this tremendous jump in dairy imports? Quite frankly, it was due to a successful effort by foreign producers and marketers to find loopholes in the section 22 controls that presently govern dairy imports.

For example, on April 15, 1957, President Eisenshower acted to bar imports on articles containing 45 percent or more of butterfat. This embargo was aimed at butterfat-sugar mixtures which had made substantial inroads into U.S. markets. However, butterfat-sugar mixtures containing less than 45 percent butterfat began to evade this control decision in 1966. In that year butterfat-sugar imports leaped to 104,522,904 pounds from a modest 3,510,032 pounds of imports in 1965.

Butterfat-sugar mixtures produced overseas were and are able to compete with domestically produced mixtures in the absence of quota controls because of export subsidies.

For example, the Dutch sell butter in their own country at 64 cents a pound. However, the Dutch subsidize butter sold on the world market to make it competitive with the cheapest butter available in that market. That means the Dutch subsidize exported butter to the tune of about 39 cents per pound, making it available f.o.b. Dutch ports at around 26 cents a pound.

When this cheap butter is then used by Canada and the United Kingdom in butterfat-sugar mixtures produced for export to the United States, it is easy to see how the product can undercut the domestic product pricewise.

But why are import controls necessary? If we can't produce dairy products cheaply in this country, why shouldn't we lose our market to other nations? I've already given one answer to that question—the product we are competing with is subsidized to artificially keep the price low.

However, a second consideration is the perishable nature of fluid milk. Fluid milk is probably the single most important product of the dairy industry. It is an essential staple in the diet of the Nation's children. Congress has recognized this fact by giving its support to a school milk program separate and distinct from the school lunch program. However, fluid milk is extraordinarily perishable. It could not be imported from any country that did not border on the United States. If we stand idly by while imports drive dairy farmers out of business we may well see the day when our children drink only powdered, not fluid, milk.

The public should also recognize that it pays dearly for dairy imports that create surplus milk production in the United States.

Because of the import flood earlier this year, before the Presidential proclamation, the Department of Agriculture had to purchase the equivalent of 3.6 billion pounds of milk at a cost of $169 million. The Department estimated the dairy price-support program would cost $300 million by the end of the year unless dairy imports were substantially reduced.

Of course, the President has now acted to curtail dairy imports. For this I am very grateful. I know that the dairy farmers of my State are grateful also. The import quota set by the June 30 proclamation should limit imports to 1,011 million pounds per year—well under the 4.7-billion-pound annual rate that existed before the quota went into effect, although substantially above the 832-million-pound level envisaged by my proposal.

Why isn't this Presidential action sufficient? Why is my bill still necessary?

First, importers have evaded controls set by Presidential order in the past and there is no reason to think they will not do so again in the future. These quotas are set on a product basis, not for the industry as a whole, as my bill would do. For example, at this very moment a dairy processor in my State is suffering badly because the most recent Presidential order did not cover a product called chocolate crumb. This product is one of his staple items and he will probably be forced out of business.

The Presidential order also placed no restrictions on imports of Edam cheese, Gouda cheese and Italian-type cow's milk cheese in grated form although restrictions on all of these products were suggested by the Secretary of Agriculture. Any of these products or some other we are not presently familiar with could become the vehicle for further import invasions bringing hundreds of millions of pounds of milk equivalent into the United States.

Second, the President at any time can rescind these controls by executive proclamation. Thus, the Congress has no control over the level of dairy imports to the United States. It is not beyond the realm of possibility that some future President could use an off-again, on-again approach to keep domestic dairy prices depressed through the constant threat of foreign imports.

Third, it takes months to use the authority available under section 22 to invoke controls of dairy imports that could have a drastic effect on the domestic market in a matter of weeks. First, the Secretary of Agriculture calls on the Tariff Commission to investigate one or a series of dairy import problems. The President approves this request. The Commission holds hearings. A report is then made to the President who, after a suitable period, issues a proclamation that then must be implemented. By setting permanent import quotas that could be expanded to take account of a growth in consumption of dairy products in the United States, my bill would make this administrative redtape unnecessary.

For all of these reasons, Mr. Chairman, I hope your committee will carefully consider the dairy import problem as well as the solution my bill would provide in any general discussions you may have of the overall import question.

The CHAIRMAN. Thank you for a very persuasive statement, Senator Proxmire.

What you are advocating here would require a rollback in dairy product imports, I take it?

Senator PROXMIRE. Well, the President has acted, acted as of July 1. He made it effective as of July 1, to restrain imports to the average level that we had between 1960 and 1965, plus an allowance for New Zealand and Australia because of the Vietnam situation. My bill would accomplish roughly the same thing.

The CHAIRMAN. So what you are asking for is pretty much what the administration has recommended, except you would like to write it in the law.

Senator PROXMIRE. That is exactly correct.

The CHAIRMAN. Where the people could depend on it. You are like other industries I know of that would rather have it in the law than limited by sufference of the President.

While he might be kind to them, you would like to see it in the law, where you exist whether the President feels kindly toward you that day or not.

Senator PROXMIRE. That is right. I admire and respect the President greatly, and I think he did a fine thing for the dairy industry, and I think it was very wise for the country, saved money.

But, as you put it so well, I think it would be a good thing for us if we had this written into the law so the dairy farmer could count on it.

The CHAIRMAN. I was talking to someone about a parallel problem. He said:

> Don't you trust the President? Don't you trust the Secretary?

I said:

> Well, I suppose I trust them more than you do. But, on the other hand, I would like to see it written in the law where we could rely on it.

You cannot tell who is going to be President, even 2 years from now.

Senator PROXMIRE. Unfortunately, that is too true.

The CHAIRMAN. Nor can you be sure who the Secretary will be even 6 months from now. So if you had it in the law then you know you can rely upon it and people could make secure investments.

Senator PROXMIRE. That is why we are losing our dairy farmers now at a very rapid rate. We are losing them at a rate of 12 to 15 every day in the State of Wisconsin, and it is true all over the country. I say if we are continuing to lose them at this rate because of the uncertainty in our industry, it is going to threaten the fluid milk which is so important to the diets of our children.

The CHAIRMAN. When a little fellow invests everything he has in his small business, and dairy farming is a small business, it would be good to know that no one is going to make a trade agreement and that no foreign country is going to invade his market and take it away from him in a year or two, is it not?

Senator PROXMIRE. Yes, indeed.

The CHAIRMAN. If you look at all the problems small businessmen are confronted with, and you have been very much interested in that problem, as have I, you find that the small businessmen have it tough enough trying to compete with all of these big businesses in this country the way it is now, much less to find that someone made a trade agreement and put them right out of business at one of these international bargaining tables.

So it would be well that he have some idea as to where he stands in the international picture, at least that his domestic market is somewhat stable when he goes into business, to feel that if he can't compete with the giants in this country, that he at least has some chance to survive without being negotiated out of business by some trade negotiator, even though that man may be very sincere when he signs that trade agreement.

Senator PROXMIRE. The Senator puts it very well, and of course, a farmer is a small businessman. He has his investment, he has problems very, very similar to any other small businessman, but I think all of us recognize that farmers have a much tougher row to hoe than almost any other group in our society, and the dairy farmer—the President has recognized this, the Secretary of Agriculture has, the dairy farmer has had the toughest of all.

He is frozen into this tough and unprofitable business because of his big investment, his income has been shamefully low, and then just as he is beginning to make progress, this flood of imports comes in, and it is a situation that does cry out for justice and relief.

The CHAIRMAN. Well, he certainly has a spokesman on his side in the senior Senator from Wisconsin.

Senator PROXMIRE. Thank you, Mr. Chairman.

The CHAIRMAN. And you made a fine statement.

Senator PROXMIRE. Thank you very much.

The CHAIRMAN. Now, the next witness will be Mr. Bernard A. Trugman, who is president of Trugman-Nash, Inc.

Welcome, Mr. Trugman, and we will be pleased to hear your statement.

STATEMENT OF BERNARD A. TRUGMAN, TRUGMAN-NASH, INC.

Mr. TRUGMAN. Thank you very much.

Mr. Chairman and members of the committee, my name is Bernard A. Trugman and I am president of Trugman-Nash, Inc. of New York City. My family, commencing with my father, has been in the dairy products business since 1921 and I have personally dealt with import and export of dairy products since 1934, a period of 33 years.

I have come before you today to urge that this committee take no action that would lead to imposition of further import quotas on dairy products. The reason for this is very simple: The President, less than 4 months ago, imposed stringent new quota restrictions on imported dairy products in addition to those already existing. Certainly now is not the time to legislate on this subject matter when the results and ramifications of this most recent action will not be known for at least a year.

A substantial increase in dairy imports was witnessed in 1966. The level of 2.8 billion pounds milk equivalent was reached in that year and the prediction was made that unless some restriction was imposed the level would rise to 4.8 billion pounds for the year 1967. As a result the President, acting under section 22 of the Agricultural Adjustment Act, asked the Tariff Commission to institute an investigation and to make recommendations to him concerning possible tightening of dairy product import quotas.

The Tariff Commission in June of this year recommended to the President the imposition of new quotas which would have the effect of keeping the import level at the 1966 figure. This recommendation, mind you, would have kept the imports at a figure which, it should be noted, is only 2 percent of the entire U.S. dairy production.

However, the President in his judgment, decided to impose much more restrictive quotas than the Tariff Commission had recommended and, therefore, on July 1 of this year the quotas that actually went into effect were at a level to allow only 1.1 billion pounds milk equivalent per year, a figure less than 1 percent of the total U.S. dairy production and equal approximately to the imports of the year 1965. These new quotas covered Cheddar cheese, American-type cheeses, cheeses other than Cheddar, butterfat mixes used for ice cream mixes, and frozen cream. There was already in existence a most restrictive butter import quota.

It can, therefore, be seen that the dairy import situation at the present time is well under control. I would implore this committee to defer any action whatsoever in this area.

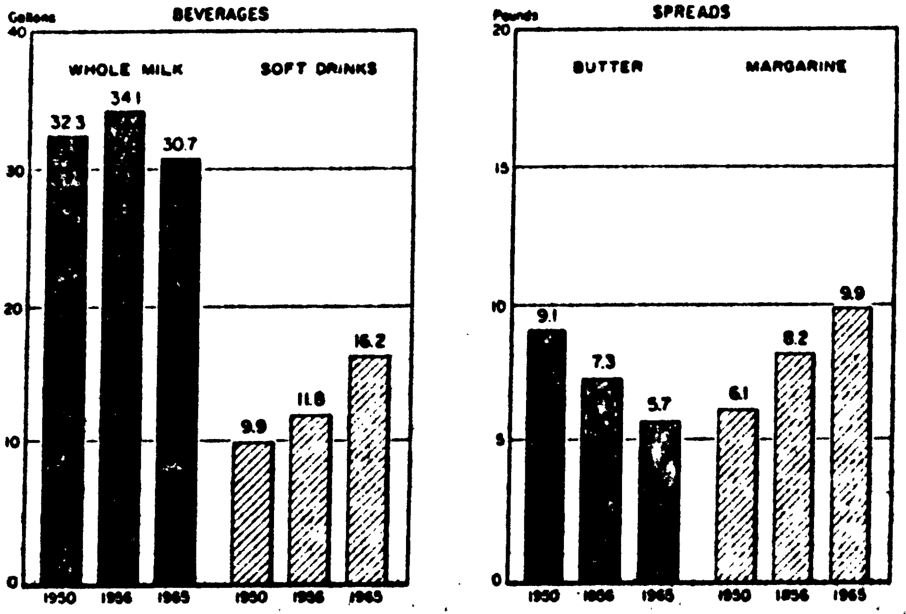
It is my personal opinion that the restrictions imposed by the President, effective July 1, actually went too far, when one considers how insignificant the size of imports is compared to the overall U.S. dairy production, and when one considers further the amount of these imports that actually are specialty items that are not even made in the United States anyway.

To me the basic underlying problem in the domestic dairy situation today is not the threat of increased imports but rather the alarming decrease over the past 15 or more years in the U.S. per capita consumption of dairy products generally and particularly milk and butter.

I have here a chart which illustrates my point graphically. It shows the gradual decline in milk consumption contrasted with the sharp increase in soft drink consumption and the alarming downward tend in butter consumption as opposed to an almost identical uptrend in the consumption of oleomargarine.

(The chart referred to follows:)

U.S. Per Capita Consumption of Selected Dairy and Competing Products, 1950, 1956 and 1965



Mr. TRUGMAN. Gentlemen, as long as this type of situation exists there can be neither stability nor absence of economic pressures in the U.S. diary industry. I note that this trend in milk and butter is not a worldwide trend and, therefore, that excuse certainly cannot be given.

If our Government is interested in preserving the markets of the domestic dairy farmer, it also must bear a share in the responsibility for this decline in per capita consumption. A case in point is the recent shift by the Departments of the Army and also the Air Force in abandoning their previous regulations requiring the supply of butter to our troops and airmen. It is my estimate that this change in policy which became effective in March 1966, might be responsible for a decrease in overall butter consumption of perhaps 84 million pounds per year, based on an individual daily ration of 1.6 ounces per person.

It should be noted that the only reason the Pentagon did not eliminate butter from the Navy ration is because the Congress, in its good judgment, has written the Navy butter requirement into the law.

It is entirely possible that this shift by the Army and Air Force might have had a so-called multiplier effect on domestic consumption of butter where people might have been swayed in changing their individual purchase habits as a result of the publicity attendant to this Pentagon decision.

It might be said that the Pentagon changed its policy in order to save money and that one should not criticize such action. And I should suppose that this might be a good reason for the shift away from butter by our civilian population as well, but in neither case, gentlemen, should imports be the whipping boy.

As I have said, I have been an importer of dairy products for many years and I have exported U.S. dairy products when they have been available for export at competitive prices. One thing that is clear to me that has already been alluded to at these hearings is that an unnecessary restriction of dairy imports is quite likely to come back to haunt the economy in perhaps some other area. In other words, gentlemen, if the countries that trade with us cannot earn dollars by sending in imports they will not have these dollars to buy our refrigerators, our record players, television sets, grains or aircraft.

Mr. Chairman, in discussing this situation, I have tried to keep to the bare essentials. I urge this committee to take no action that would lead to further restriction of dairy products into the United States.

Thank you.

The CHAIRMAN. Mr. Trugman, I notice here in your statement that you feel that it was unfortunate that the Army and the Air Force abandoned their regulations requiring the supplying of butter to troops and airmen. Let me ask you, I assume that those services do still provide something in the place of butter, oleomargarine, in the event butter is not served, would they not?

Mr. TRUGMAN. I assume so, yes, sir.

The CHAIRMAN. And I suppose that the service in purchasing butter, if the purchasing officer found it desirable to purchase butter, he would just purchase competitively with oleomargarine.

Mr. TRUGMAN. Well, the price is not competitive, sir. The support program of the Government apparently raises the price on the milk and the butter-finished product to such a level that there is quite a bit of difference between the price of margarine and butter.

The CHAIRMAN. Well, are you not advocating a restraint on free trade yourself when you advocate we write into the law here that the services be required to purchase butter rather than oleomargarine?

Mr. TRUGMAN. Well, sir, I think your predecessor, Senator Wiley, when he was chairman of the Senate Finance Committee, was the instigator of making the regulation so that the Navy would have to serve butter and so not buy margarine in its place.

The CHAIRMAN. He was not chairman of this committee. He was chairman of the Foreign Relations Committee for a while. He might have had something to do with it, but he did not do it as chairman of this committee.

Mr. TRUGMAN. That is my understanding here.

The CHAIRMAN. The committee was told by two previous witnesses that the quotas which have been established on dairy products proved ineffectual as foreign producers were able to circumvent them by product mix, changing packaging requirements and things of that sort. Do you have any facts that can refute those assertions.

Mr. TRUGMAN. Yes, I do, sir. Actually, in the year 1966, 46,000 tons or therebys of imported butter mix was imported but that was the first and only year. The Government acted—the administration acted very quickly in cutting that out. The actual quota that has been established on July 1 was limited to only 1,150 tons which is about only 22½ million pounds or less, which is less than 2 percent or close to 1 percent of the entire imports of that previous year.

Now, we in the trade consider that that is completely effective as far as control of those imports and Secretary Freeman this morning mentioned that. He says absolutely there is a control and right now the amount of imports is approximately less than 1 percent of the entire milk production of this country.

I could mention one other thing about the consumption which one of the previous speakers may have given a bit of a wrong impression on. The production of milk in this country at the present time is about 120 billion pounds of milk equivalent. Fifteen years ago the figure was the same, 120 billion pounds. Yet, the population 15 years ago was 150 million people. Today we have 200 million people.

The CHAIRMAN. Here is what the previous witness said on behalf of the National Milk Producers Federation. He said:

> For example, a quota was placed on butter in an effort to regulate imports of butterfat. This was evaded by imports of butteroil. A quota was then placed on butteroil. This was evaded by imports of Exylone, a product composed of butterfat to which a small percentage of sugar had been added. A quota was placed on butterfat-sugar mixtures containing 45 per cent or more of butterfat. This was promptly evaded by imports of a butterfat-sugar mixture containing 44 per cent of butterfat. A quota was then imposed under the sugar law on butterfat-sugar mixtures containing more than 25 per cent of sugar. This was evaded by imports of butterfat-sugar mixtures containing 24 per cent sugar.

I just wanted your comments on that.

Mr. TRUGMAN. Yes; there is an actual quota on butter imports of 707,000 pounds, if I am not mistaken, for the whole country, from all sources. There is a quota of 1,200,000 pounds of butter oil for the whole quota. That is from all over. That is less than 2 million pounds overall fat.

As for butterfat mixtures, there is 1,150 tons altogether. It is only less than 2½ million pounds. The total—there is no quota on Exylone.

There is no quota on butterfat-sugar, butterfat mixtures other than I just mentioned.

The amount of chee:e that is on quota is much less than the Tariff Commission suggested in its report. I was down at the Tariff Commission hearings in May. They spent 3 days taking testimony just on this problem. They published a book that must have run 200 pages, which is available for the Senator and they concluded that 2.8 billion pounds should be imported. The President in his judgment, cut it back to 1.1 billion, and that in my opinion, is much more stringent than it should be. I do not think there should be any legislation. There is no need for it, sir.

The CHAIRMAN. This witness also said that a quota on Cheddar cheese was evaded by imports of Colby cheese, which serves the same purpose and that the quota on cheese in original loaves was evaded by simply cutting the loaves in half and then putting them back together again. I am sure that we can have your help in getting to the bottom of this and seeing who is right.

Mr. TRUGMAN. Yes. Would you like me to comment, sir? The Cheddar and the Colby are both on quota licenses. The quotas amount to much less than the Tariff Commission suggested could be equitable.

As far as the Italian type cheeses or the ones that are cut in half, the Tariff Commission found that there is no harm done to the U.S. dairy industry by any imports of that—that the amount was insignificant compared to what could be a troublesome area, and they decided no quotas were necessary at all and the President went along with that.

The CHAIRMAN. I would suggest that you give us a supplementary statement documenting that and we will invite the other side to submit one also. We usually get to the bottom of these things and find out precisely who is right and who is wrong. If we take enough time at it and usually we do. Thank you very much.

Mr. TRUGMAN. Thank you.

(Pursuant to the above discussion the National Milk Producers Federation submitted a supplemental statement which appears at p. 124. The supplemental statement of Mr. Trugman, follows:)

SUPPLEMENTAL STATEMENT OF BERNARD A. TRUGMAN

This memorandum is in response to a request for a supplementary statement documenting my position in regard to problems which have arisen in the past with the administration of import quotas on dairy products.

First, I would like to address myself to the problems which arose with regard to imports of butterfat in certain forms.

As I brought out in my testimony before your Committee on the 18th (Transcript page 159), imports of butter have been for many years subject to an overall quota of 707,000 pounds. As you know, butter contains about eighty percent butterfat. Likewise, imports of butteroil (about 99 percent butterfat) and imports of butterfat-sugar mixtures (containing over 45 percent butterfat) have for many years been subjected to quotas, the former item having an overall quota of 1,200,000 pounds and the latter a zero quota.

When the scarcity of milk in the domestic market in 1966 caused domestic prices to rise, imports of butterfat mixtures were again attracted to the United States. These mixtures, of course, had a butterfat content not over 45 percent. As you know, the President, acting on the advice of the Tariff Commission rendered in June of this year (T.C. Pub. 211), issued Presidential Proclamation 3790 which limits imports of these mixtures containing over 5.5 percent but not over 45 percent butterfat. It is not commercially feasible to import such mixtures containing 5.5 percent butterfat or less.

Thus it is apparent at this writing that the Administration has acted to effectively and substantially limit the imports of butterfat so as to protect the domestic dairy industry.

Second, insofar as imports of Colby cheese are concerned, the Tariff Commission stated that Colby, together with washed curd, granular, and cheddar is used primarily to produce pasteurized process American cheese and that under regulations of the Food and Drug Administration, only these four cheeses are eligible to be used. (T.C. Pub. 211, page 15.)

When this statement is taken in conjunction with the quotas imposed on these products by paragraphs (4) and (5) of Presidential Proclamation 3790, it is evident that there is little if any room for evasion of those quotas under present circumstances.

As to the Italian-type cheeses, not in original loaves, the Tariff Commission stated that such imports were insignificant when their milk equivalent was compared to domestic milk production. Thus the Commission did not find that any injury was resulting or was practically certain to result to domestic price support programs because of importation of these cheeses. (T.C. Pub. 211, pages 4–5, 19.)

From the above, it is apparent that Secretary of Agriculture Orville Freeman indeed had basis for stating before the Senate Finance Committee, ". . . that the situation can be kept under control, using the legislation which we now have, and that the recent Section 22 action has demonstrated this."

We would be pleased to furnish additional information on request.

(Following are communications received by the committee expressing an interest in the preceding subject:)

Statement of Senator John Stennis

As one of the co-sponsors of the Dairy Imports Act of 1967, S. 612, I am grateful to the Committee for this opportunity to express my utmost support for this legislation. I cannot emphasize too strongly how important this bill is to many small farmers and dairy processors in my own State of Mississippi.

Although Mississippi is not a leading dairy state nationally, it is one of the leading Southern States in dairy production. In total milk production, Mississippi ranks 26th in relation to other States and produces only about one percent of the nation's milk supply. However, the sale of milk consistently makes up about seven percent of Mississippi's cash receipts from farm marketings. Mississippi dairy farmers produce more than a billion pounds of milk annually and nearly ninety percent of this is marketed. In 1965, the total cash receipts from the sale of milk and cream amounted to $50,000,000. The sale of milk ranks 5th as a source of cash farm income in Mississippi.

Thus, dairy farming is a small but vital part of our economy in Mississippi. It is also the foundation and support of another highly important industry. There are thirty fluid milk processing plants throughout Mississippi and numbers of manufacturing plants engaged in making cheese, ice cream, dry milk and other dairy products. These enterprises all depend to a large extent on a ready and constant supply of milk from Mississippi dairy farmers. Similar industries in surrounding States are equally dependent on Mississippi milk producres. In 1965, Mississippi exported 60,000,000 pounds of milk to Alabama, 100,000,000 pounds to Tennessee, and 144,000,000 pounds to Louisiana.

Although Mississippi has been able to hold its own in the production, processing, and manufacture of milk and milk products, through the adoption of modern methods and equipment, the dairy industry has actually suffered a drastic decline in the past ten years. From 1956 to 1965 the number of milk cows decreased from 581,000 head to 303,000. The number of farms with milk cows dropped from more than 122,000 in 1954 to less than 38,000 in 1964. The number of processing plants fell by fortyfive percent between 1956 and 1965. The number of manufacturing plants was cut in half during the same period.

If this trend is permitted to continue, the dairy industry in Mississippi will be completely wiped out in less than a decade. There is a limit to the handicaps and disadvantages that can be overcome by harder work and better methods. The dairy farmer has struggled to keep his head above the flood of foreign dairy imports that have poured into the country in recent years and he has done an outstanding job in cutting costs, increasing production and generally remaining competitive. But he is now on the verge of going under and taking the whole dairy industry down with him unless Congress comes to his aid.

This decline in the dairy industry in Mississippi corresponds almost exactly with the increasing evasion by foreign producers of the import quotas imposed in 1953 under section 22 of the Agricultural Adjustment Act. These quotas have been avoided by foreign shippers from the very beginning and all efforts to strengthen them have failed. It is clear that they are totally ineffective in controlling imports and more realistic measures are urgently needed if the dairy industry is to be saved.

It is useless to try to stabilize agriculture through regulation at home if foreign producers are going to be allowed to flood our markets at will. Unless we also control the flow of agricultural products into this country, we are merely putting our own farmers at the mercy of fluctuations in production in foreign countries. Our farm program will, in effect, be controlled from abroad rather than at home. In the long-run this is going to hurt not only the dairy farmer but also all those employed in the dairy industry and related businesses and the consumer as well. If we allow the dairy farmer to be driven out by unfair competition from foreign surpluses, then the processing plants and the manufacturing plants are going to be closed down and their employees thrown out of work. There will be a shortage of fluid milk because this cannot be shipped several thousand miles without spoiling. The price of dairy products, such as cheese and butter, will gradually increase as we become more dependent on foreign suppliers.

The benefits of the Dairy Import Act, therefore, will reach far beyond the dairy farmers who are hurting right now. It is really in the best interest of all concerned and should be speedily enacted to prevent further injury to the dairy industry, save the many jobs at stake, and protect the consumer from higher prices in the future.

Statement of Hon. Len B. Jordan, a U.S. Senator From the State of Idaho

Mr. Chairman, as a cosponsor of S. 612, the Dairy Import Act of 1967, I appreciate the opportunity to express my views concerning this vital area of legislation.

I wish to suggest that if unchecked imports are allowed to continue to flow into the United States, the dairy farm industry will be severely weakened, if not permanently damaged.

The number of dairy farms in the nation has declined from 2,400,000 in 1940 50,000 today. At this rate, there very well may be no dairy farms by 1980 unless steps are taken to protect this industry and provide its members with the promise of a satisfactory income and not the threat of gradual extinction.

The dairy import act of 1967 allows for quotas which are based on average imports of butterfat and non-milk solids during 1961 to 1965. It also states that, as our markets expand, importers will receive a proportionate increase in their quotas.

This bill will certainly not prevent foreign countries from shipping dairy products to this country, but it will protect a fair share of the market for the American dairy farmer.

Statement of His Excellency, the Ambassador of the Argentine Republic, Mr. Alvaro Alsogaray

Mr. Chairman, (1) The Argentine Government as well as the different sectors of the industrial and commercial production of cheese and dairy products of Argentina are greatly concerned by the bills presented in the United States Congress that would further increase the restriction on the imports of these products in the United States.

(2) Due to the eventual restrictive nature that the proposed measures might have in this matter, concerning the products of Argentine origin and due to the certain injury that the legislative bills would cause if approved, the Argentine Government has expressed its deep concern in many and recent occasions.

(3) The Argentine Government finds it is necessary, to insist once more that the imposition of restrictive measures on the imports of dairy products of Argentina to the United States is not justified (taking into account the experience of many years), and further more they contradict ideals adopted in international and specifically Latinamerican forums.

(4) It is necessary to categorically point out that the imports of Argentine origin do not represent, due to its amount and characteristic, neither an interference nor a distortion, of the commercial market.

(5) Argentine exports to the United States Italian type cheese (from cow's milk), in original loaves, in accordance with the quota system established in 1953, being the actual amount for Argentina 5.919.000 pounds.

(6) Argentina exported in calendar year 1964, 3.630.000 pounds; in 1965, 3.098.000 pounds and in 1966, 4.045.000 pounds, being accordingly the percentage of utilization of the quota below the 80%. This low percentage is partially the result of a system of licenses to importers. In this respect Argentina has expressed her negative points of view, but even this system could eventually be improved.

(7) During the last two decades it has not been recorded any sizeable increase in the imports of Argentine cheese, and it is evident that this type of cheese has not caused any distortion or interference with the local market or with the price support programs of the U.S. Department of Agriculture, as it has been the case with other dairy products, excessively imported from other sources.

(8) Moreover it must be pointed out that the Argentine quota was established in 1953 and that in the last six years the U.S. population has increased in almost 20.000.000 inhabitants, and the per capita consumption of cheese has increased in 13%.

(9) The growth in the U.S. production of Italian type cheese further proves that that imports are not interfering with the domestic industry; in 1957 the U.S. production of this type of cheese was of 111,620,000 pounds, and in 1966 has increased to 270,030,000 pounds, an increase of 142%, recording a steady growth of 10% per year.

(10) In 1966 the U.S. manufacturers produced more than 30 times as much Italian type cheese as was imported into the U.S., and it is evident that the small percentage of imported cheese have offered no great competitive problems neither displace domestically produced Italian type cheese in the market, nor forcing down prices.

(11) Relatively, it must be mentioned that the equivalent in milk of the total production of all dairy products supplied to the United States in 1966—local and imported—was 128,800,000 pounds, which compared to the amount of 40,045,000 represents an insignificant fraction and can therefore, neither influence price support programs nor the domestic market.

(12) The non-quota Italian type cheese, mainly grated, sent to the United States from Argentina, amounts very little. The figures for the last three years, are respectively, 126,000; 39,000 and 391,000 pounds, which is also a low percentage, not only compared to the total of dairy products imported to the United States, but also to the total local production.

(13) It is possible that under exceptionally favorable natural and commercial conditions, as during the fiscal year 1966–67, the dairy products imported from Argentina could reach the amount of the quota. However, that would be unusual, for the growth of the total Argentine production from 1952–1966 has been, for the Italian type cheese, 15%, that is to say, an average of 1% each year.

(14) According to what has been stated, it is obvious, that neither in the previous experience, nor in the reasonable prevision of the production and exportation of the Italian type cheese to the United States, there is a reason to consider them dangerous to the local production, market or programs, and then any restrictive measure adopted in that respect would appear as groundless and unfair.

(15) In short, the Argentine Government believes that if the Argentine quota is not to be increased in proportion with the increase in the population and cheese consumption as it has been pointed out earlier, the volume of the current quota should at least be maintained.

(16) It is the hope of the Argentine Government that the principles set forth herein are shared by the United States and trusts these principles will be taken into account when the measures are adopted and furthermore, that these measures will not harm the cheese trade which is mutually advantageous for both countries.

Brief of the Dairy Products Importers Group of the Italy-America Chamber of Commerce, Inc., Submitted by Barnes, Richardson & Colburn, New York, N.Y., Before the Committee on Finance, U.S. Senate

SUMMARY OF ARGUMENT

The proposed "Dairy Import Act of 1967" (S. 612), by grouping together all dairy products and restricting their importation to the average quantity of butterfat or nonfat milk solids annually imported into the United States during the period 1961–1965, would place unwarranted limitations on the importation of Pecorino cheese and Italian-type cheeses made from cow's milk.

Since sheep's milk cheese is not produced in the United States, Pecorino cheese from Italy does not compete with any American-made product and any quota restriction on its importation would be completely unjustified.

Imports of Romano, Reggiano, Parmesano, Provoloni and Provolette cheeses, which are already subject to quota under section 22 of the Agricultural Adjustment Act, are infinitesimal in quantity in comparison with U.S. production. Since they pose no threat to continued increases in U.S. production, further limitation of their importation is unnecessary.

The Dairy Products Importers Group of the Italy-America Chamber of Commerce, Inc. of New York, New York, submits the following brief pursuant to leave granted by the Chairman in an announcement dated September 29, 1967. The Italy-America Chamber of Commerce is a national organization of American businessmen engaged in trade and other economic dealings with Italy. The Dairy Products Importers Group of the Chamber includes numerous U.S. corporations and business firms engaged in the importation of Italian cheeses for sale in the United States.

This brief is submitted in opposition to the proposed "Dairy Import Act of 1967" (S. 612). The cheeses in which we are particularly concerned fall into two categories: Pecorino cheese, which is made from sheep's milk and provided for under item 117.67 of the Tariff Schedules of the United States, and Italian specialty cheeses made from cow's milk, such as Romano, Reggiano, Parmesano, Provoloni and Provolette, which are provided for under item 117.55 of the Tariff Schedules. They represent the types of cheeses which historically have been imported into the United States. The Dairy Import Act of 1967 would prohibit the importation of any dairy product which would cause the total imports in any calendar year of butterfat and nonfat milk solids to exceed the average annual quantities of such products imported during the five calendar years 1961–1965. The term "dairy products" is defined in the bill as including all forms of milk and dairy products, butterfat, nonfat milk solids and any other combination or mixture thereof, including any article, compound, or mixture containing 5% or more of butterfat, or nonfat milk solids, or any combination of the two.

Our opposition to the bill stems from the grouping of all dairy products together and restricting their importation on the basis of the average quantity of such products annually imported into the United States during the period 1961–1965. It will be hereinafter shown that neither Pecorino nor the Italian specialty cheeses made from cow's milk have had a detrimental effect upon the U.S. dairy industry, are not being imported under such conditions and in such quantities as to render ineffective, or materially interfere with, the price-support programs of the Federal Government, and that any further restriction on their importation is unnecessary and unjustifiable.

I. Pecorino

Pecorino cheese is a distinct product which accounts for over two-thirds of all imports of cheese products from Italy. Its unique fundamental ingredient, sheep's milk, sets it apart from all other cheeses. Imports of Pecorino cheese from Italy do not compete with any comparable American dairy product, since sheep's milk cheese is *not* produced in the United States. It is a premium cheese which sells at prices substantially higher than cow's milk cheeses to those who recognize and are willing to pay for the subtle, more expensive flavors and consistency produced in Italy. It is because of its unique character and fundamental ingredient that Pecorino cheese has not been subject to quota restrictions under section 22 of the Agricultural Adjustment Act.

Statistics published by the United States Department of Commerce [1] reveal that imports of Pecorino cheese from Italy over the period 1961–1966 have fluctuated between 12,000,000 and 16,800,000 pounds, with an average of approximately 14,400,000 pounds per year. In 1966 imports from Italy totaled only 12,052,704 pounds, a drop of almost 1,000,000 pounds from the quantity of imports in 1965. During the same period of time, as found by the United States Tariff Commission in its recent Report to the President on Dairy Products,[2] the U.S. production of Italian-type cheeses (cow's milk) has flourished, increasing from 60,088,000 pounds in 1961 to 81,000,000 pounds in 1966.

[1] U.S. Department of Commerce, Schedule A, 11765 and 11767.

[2] United States Tariff Commission Report to the President on Investigation No. 22-26 Under Section 22 of the Agricultural Adjustment Act, as Amended, June 1967.

The facts are indisputable. Imports of Pecorino cheese cannot be said to have had a detrimental effect upon nor in any manner impeded the growth of the dairy industry in the United States. Therefore, any restriction on the quantity of imports of such cheese is clearly unnecessary.

II. Romano, Reggiano, Parmesano, Provoloni and Provolette

Since 1953, imports of Italian Romano, Reggiano, Parmesano, Provoloni and Provolette cheeses, which are produced from cow's milk, have been subject to an annual absolute quota under section 22 of the Agricultural Adjustment Act. The initial quota was 9,200,100 pounds which was increased in 1969 to 11,500,100 It is significant, however, that total imports of these cheeses during 1966 were far below the quota limit. Department of Commerce[3] statistics reveal that only 8,227,983 pounds were imported last year, with only 3,762,883 pounds attributable to Italy. Like Pecorino, Italian-type cheeses made from cow's milk are traditional specialty products which are higher in price than their American-produced counterparts. Moreover, they cannot be commingled or processed with American-made cheese to reduce costs or infringe upon domestic milk consumption.

Imports of the Italian-type cheeses in question are infinitesimal when compared with the increasing United States production of such cheeses which, as reported by the Tariff Commission, reached 81,000,000 pounds in 1966. The Tariff Commission, after extensive hearings and review of the dairy products industry, concluded and reported to the President that Italian-type cheeses made from cow's milk were not being imported under such conditions and in such quantities as to render, or tend to render, ineffective, or materially interfere with the price-support programs of the Department of Agriculture for milk and butterfat products. Clearly, imports of such cheeses pose no threat to the domestic dairy industry, and further restriction on their importation would not in any way alleviate the present problems in that industry.

CONCLUSION

Imposition of across-the-board restrictions on all imported dairy products is neither necessary nor justified for the protection of the dairy industry in the United States. Imports of Pecorino cheese and Italian-type cheeses made from cow's milk are not competitive with American-made cheese, and have not impeded the growth of the dairy industry in the United States. Therefore, the Committee is urged to revise the proposed legislation (S. 612) so that no further restriction on the importation of these products is imposed.

ROQUEFORT ASSOCIATION, INC.,
New York, N.Y.

TOM VAIL ESQ.,
Chief Counsel, Senate Committee on Finance,
New Senate Office Building, Washington, D.C.

DEAR MR. VAIL: My organization is vitally interested in the matter of imports of Roquefort cheese. We believe that Roquefort does not compete with any cheese produced in the U.S.A. and that any quotas established should not include this product.

S. 612 directly concerned quotas on cheese and I submitted a statement to, and testified before, the Senate Committee on Agriculture and Forestry last Spring with regard to that Bill.

It is my understanding that the hearings of the Senate Finance Committee are much wider in scope than merely cheeses or even dairy products. I would very much like my views to before the Senate Committee on Finance before any proposed bill is prepared in final form by your Committee. On the other hand, it appears to me that if I were to submit a brief at this time concerning one very small segment of the problem now under consideration by your Committee, it would not be helpful to the present deliberations.

If there will be an opportunity for those interested in individual items such as Roquefort cheese in particular, and French cheeses in general, to make their thoughts known to the Committee at a later date, should the Committee decide

United States Department of Commerce, Schedule A, 11755 20/40/60/80.

to draft a bill on the subject, then I believe it would be more useful for me to await that particular time. If, on the other hand, there will be no such future opportunity, then, of course, I would want my views submitted to the Committee now.

I would greatly appreciate your comments and advice.

Very truly yours,

FRANK O. FREDERICKS,
President.

STATEMENT OF AMERICAN PRODUCERS OF ITALIAN-TYPE CHEESES ASSOCIATION AND UNIVERSAL FOODS CORP., STELLA CHEESE DIVISION, MILWAUKEE, WIS., SUBMITTED BY DONALD M. COUNIHAN, COUNSEL

The domestic producers of Italian-type cheese are extremely concerned about rapidly increasing imports of dairy products into the United States, particularly Italian-type cheeses that are coming in outside existing quotas.

The American Producers of Italian-type Cheeses Association is composed of 24 members specializing in producing Italian varieties of cheese, principally Provolone, Romano and Parmesan. These are, of course, all cow's milk products. It must be emphasized that the members of our association account for practically the total production of Provolone, Romano and Parmesan in the United States.

The Italian-type cheese industry purchases over 2 billion pounds of fresh farm milk annually from over 6,000 farmers and employs approximately 2,500 persons. What happens as a result of these hearings affects all 8,500 of these people and the thousands of others that depend upon them.

The Stella Cheese Division of Universal Foods Corporation is one of the largest of the domestic producers of this type of cheese operating seven Italian-type and blue-mold cheese manufacturing plants at such places as Amery, Cassville, Clayton, Lancaster, Cumberland, Baronett, Glenwood City and Campbellsport, Wisconsin; Baltic, Michigan; and Peru, Indiana.

Certain Italian-type cheeses are presently covered by a quota provision established under Section 22 of the Agricultural Adjustment Act in Item 950.10 of the Tariff Schedules of the United States for "Italian-type cheeses, made from cows' milk, *in original loaves*." These quotas were established to prevent interference with the price support programs of the Department of Agriculture and disruption of the American dairy industry by excessive imports. However, from the outset, a serious loophole has existed in the quota provisions. By merely cutting the original loaves of cheese or grating them, the cheese is changed to a state no longer "in original loaves" and thus the quota provision is avoided. Customs officials have held that cut loaves and grated cheese are not in orginial loaves.

In this way, rapidly increasing quantities of Italian-type cheese are coming into the United States outside the quota. The quota was originally set up to prevent material interference with the price support programs of the Department of Agriculture. The Department has promulgated regulations providing an orderly method of regulating these cheese imports under quota through the issuance of import licenses. These purposes have been subverted by increasing imports making use of the "not in original loaves" loophole. There is no reason why these cut Italian-type cheeses should not be included under the quota provision. Merely cutting or grating the cheese does not change its character or identity. The loophole should be closed to prevent interference with U.S.D.A. price support programs and to enable orderly administration of the import license program.

We recently asked the Tariff Commission to close this loophole by recommending to the President that the quota classification under Item 950.10 of the Tariff Schedules of the U.S. be changed to include named Italian-type cheeses, whether in original loaves or not. Unfortunately, the Tariff Commission recommended no action to close this blatant and obvious loophole in their June, 1967 Report on Dairy Products.

But even if this loophole were closed, that is not enough. We are confident that the importers will find another loophole. They always have in the past.

Further, even if the "not in original loaves" loophole is closed, it should be noted that the quota *only* covers certain hard Italian-type cows' milk cheeses, namely; Romano made from cows' milk, Reggiano, Parmesano, Provoloni, Provolette, and Sbrinz. Other Italian-type cheeses made from sheeps' milk (Pecorino) and goats' milk are not included. Mozzarella and other specialty-type Italian cheeses are being used in greatly increasing quantities but they are *not* covered by the quota either.

Therefore, we need legislative relief to cover *all* types of Italian-type cheeses—those under the quota and those not. We support legislation, such as the Dairy Import Act of 1967, to create legislative limitations on the imports of dairy products based on the 1961–65 average.

We also support "The Orderly Trade Act of 1967" which, we understand, will be known as the Dirksen-Long Bill. We feel that the setting up of definitive, objective criteria in the bill for relief is extremely valuable. The sad experience with the adjustment assistance provisions of the Trade Expansion Act of 1962—no relief in eighteen cases—indicates the need for more tightly drawn criteria. The four criteria that we understand will be in the bill, under any of which a domestic industry can qualify for import quotas, cover the situations where domestic industry has been harmed.

We feel that foreign imports have caused market disruption, unemployment and under-employment and economic waste of capital investment in productive facilities in our industry.

We are concerned that the proposed Dirksen-Long Bill not contain any loopholes whereby the President would be allowed to operate outside of the arithmetic of the quota formulas in the bill. We understand that the bill contains one provision that does allow the President to do this. This provision would empower the President to negotiate quotas with foreign suppliers on more liberal terms—if the terms are still such as to carry out the act's "purposes" and avoid market disruption. We are confident that such a provision will be drafted such that it will not allow the President to vitiate the intent of the bill through "freewheeling" negotiations.

We are concerned, however, that any legislation adopted make adequate provisions for limitations on imports of *all* Italian-type cheeses. We would not want to see, for example, any "trading off" where Italian-type cheese quatos are raised and the quotas on other dairy products are correspondingly reduced. Quotas set for dairy products under dairy import legislation should be set by *product*—such as Italian-type cheeses and not lumped together under a general category. In this way, fair consideration can be given to each type of dairy product. We are hopeful that any dairy import legislation adopted will clearly establish specific quotas for Italian-type cheeses—without regard to shape and form and without regard to type of milk used to manufacture the cheese. After all, a pound of foreign cheese, regardless of shape or form, will still replace a pound of domestic cheese and thus harm the American dairy farmer and his customer, the American cheese manufacturer.

IMPACT OF DAIRY IMPORTS ON PRICE SUPPORT PROGRAM AND DOMESTIC INDUSTRY

There is no question that the loophole imports of Italian-type cheese and dairy imports generally have increased tremendously in the last year. There is also no question that these imports have materially interfered with the dairy price support programs of the Department of Agriculture. The Commodity Credit Corporation (CCC) has vastly increased its purchases of butter, cheddar cheese and non-fat dry milk under the price support program.

In 1965, the U.S. imported the equivalent of 900 million pounds of milk—mostly in the form of cheese. In 1966, these imports increased 300%—to the equivalent of 2.7 billion pounds of milk—enough additional milk to put the domestic dairy industry back into a surplus situation again. Further, the latest statistics for 1967 indicate an increasing trend of cheese imports and the consequent rise in price support payments by CCC. In fact, the figures for the first half of 1967 indicate that imports are coming in at a rate of 4.3 billion pounds of milk—equivalent on an annual basis.

In the case of Italian-type cheeses, an import quota has been in effect as previously discussed for Italian-type cheeses made from cows' milk, in original loaves, under Section 22 of the Agricultural Adjustment Act.

In 1965, *non*-quota imports of Italian cows' milk cheeses, such as Parmesan, Romano, Provolone, Provolette, etc., amounted to 95,000 pounds. In 1966, these imports increased to 424,000 pounds. This is an increase of approximately 346% over 1965 imports with greater increases indicated for 1967.

These foreign cheese imports have had an extremely sharp rise in the past several months. This has resulted in the following specific results:

(1) The price support program of USDA has been directly interfered with in that the market price of milk has been severely reduced by the dislocation of purchases of milk by domestic cheese makers.

(2) The price support program of USDA has been directly interfered with in that CCC has been forced to greatly increase its purchases of milk, cheese and non-fat dry milk as a direct result of increases in foreign imports of cheese. There is a direct correlation between the rise in foreign imports and the increased purchases of USDA under the price support program.

(3) Low-priced imports of Italian-type cheese from Argentina and Australia that were grated to avoid the quota covering Italian-type cheeses in original loaves have disrupted the domestic Italian-type cheese market. These imports are being sold delivered ex-dock in the U.S. and after duties have been paid, at prices *below*, and we repeat "*below*", U.S. cheese manufacturing costs.

In 1960, the Tariff Commission recommended over a two million pound increase in the Italian-type cheese quota based on the majority opinion at that time that increased imports would stimulate consumer interest in dairy products, that there would be little impact on USDA price support programs and that Italian-type cheeses are at most only indirectly competitive with domestically produced Italian-type cheeses and do not displace them. At that time, imported brands generally sold at a premium over domestic brands.

This is no longer the case. Greatly increased *ex*-quota imports from Argentina of grated Italian-type cheese have hit the U.S. market at prices as much as 20 cents below U.S. prices and the availability of this cheese appears to be rapidly increasing. The devaluation of the Argentine peso is partly responsible. In any event, domestic producers cannot compete with this foreign cheese because they must pay at least the price support figure for manufacturing milk. This figure (currently $4.00 per hundred weight) is vastly more than the comparable figure in Argentina. Further, the low Argentine labor costs involved in grating the cheese creates an additional price differential with respect to domestic cheese in view of high American labor costs. Thus, by grating the cheese to avoid the quota, not only do foreign cheese makers avoid the quota *but* they also attain an additional price advantage. The result is an unfortunate one; the U.S. dairy price support program is tending to price U.S. cheese and cheese makers out of the market. It would appear that this is certainly not the intention of the Department of Agriculture. But, the vise closes—either domestic Italian-type cheese makers must meet the lower prices set in the market place by the foreign cheese imports or else they must go out of business. In fact, in the last three months, two substantial manufacturers of Italian-type cheese have gone out of business.

American cheese makers are closely supervised by the Food and Drug Administration and by local and state agencies which set high standards of sanitation, labeling and manufacture. We take pride in the maintenance of these standards but here again, the effect is to increase the competitive disadvantage of domestic producers with respect to low-priced imports. There are no comparable sanitation, labeling, etc., standards in Argentina or anywhere else—foreign cheese imports are inspected by Food and Drug on only a random basis at ports of entry into the U.S. Senator Nelson has introduced the Foreign Dairy Inspection Act of 1967 which will require foreign dairy farms and plants producing dairy products for importation to the United States to meet sanitary standards established by the U.S. Government. We strongly support this bill and hope it will be enacted by Congress.

These loophole imports of Italian-type cheese not only interfere with the price support programs of the Department of Agriculture but they cause a loss of revenue to the American dairy farmer. Generally, our company has paid the farmer a higher price for his milk than he would receive from a cheddar cheese maker who resells to the CCC. Therefore, the displacement of the domestic Italian-type cheese industry will not only thrust an added burden on the CCC through increased purchases of cheddar cheese to offset the slack created by our demise, but it will cut the already *too low* earnings of the dairy farmer. The dairy farmer deals with a perishable commodity and must find a market for his product quickly if the fluid milk handler doesn't want it. He turns to the domestic cheesemaker that is geographically close to him. For every pound of foreign imported cheese that comes into the U.S., there is one less pound of cheese that will be produced domestically. Thus the farmer trying to sell his surplus milk to the Italian-type cheesemaker finds no market there—and turns to the cheddar cheesemaker from whom he receives approximately $4.00 per hundredweight of milk produced. The price he would have gotten from an Italian-type cheesemaker currently is $4.38 per hundredweight which is *more* than he would get from the cheddar cheesemaker.

This helps to account for the unfortunate fact that the American dairy farmer receives an average wage for his labor that is less than the minimum wage set by Congress. In Wisconsin, for example, many dairy farmers in 1965 averaged less than 50 cents an hour for their labor. This is absurd. Further, in 1965 and 1966, the decline in the number of dairy farms increased sharply and the number of dairy cows sent to slaughter nearly doubled. Thus the need for dairy import legislation is obvious to help all segments of the American economy.

In this situation involving dairy imports is allowed to continue without action by our government, everyone will lose. The Italian-type cheesemaker goes out of business, the farmer loses badly needed income the dairy support programs are interfered with, and the taxpayer must pay more for the dairy price support programs.

If our industry is forced out to business by low-priced imports, thousands of persons will be deprived of their livelihood. It should be understood that most cheese factories are operated in rural areas where non-farm employment opportunities are very limited. Thus, the effect of loss of these jobs will have a much greater impact than would a comparable loss of jobs in a metropolitan area. There appears to be no intelligent reason why foreign dairy imports should be allowed to cause this level of economic injury to domestic cheesemakers and dairy farmers.

We urge the Committee to consider all of these factors carefully and take action to restrict the imports of dairy products to a reasonable level. If dairy imports were controlled by quotas on a product-by-product basis, the dairy farmer could take his milk to market without fear of injury because of a reduced price brought on by excessive dairy imports, the domestic cheesemaker could market his product at a modest profit, and the public would not be threatened with an inadequate supply of domestically produced milk and dairy products.

Statement on Behalf of Cheese Importers Association of America, Inc., by Martin A. Fromer, Counsel

SUMMARY SHEET

Re: Committee on Finance Hearing on Import Quota Legislation.
Subject: Cheese Imports.
Summary:

Imports of dairy products are presently subject to restriction under Section 22 of the Agricultural Adjustment Act and no additional legislation or restrictions are warranted or necessary.

U.S. milk production is in a downtrend.

Cheese imports represent a very minute part of the U.S. dairy industry.

Additional restrictive import legislation would have a seriously adverse affect on international trade—of a total U.S. favorable trade balance of 3.6 billion dollars in 1966, the agricultural trade balance accounted for 2.4 billion dollars, or two-thirds of the favorable margin.

Imports of foreign types of cheese have stimulated U.S. production of similar types, such as blue cheese, swiss cheese, Italian cheese, etc.

Statement

As indicated by the Committee in the press release announcing that the Committee will hold three days of public hearing, there have been introduced into both Houses of Congress a substantial number of bills which would restrict the importation of various commodities. Prominent among these commodities is dairy products. As the Committee well knows, Section 22 of the Agricultural Adjustment Act provides for restricting imports of dairy producers when imports are in such quantities and under such conditions as to render or tend to render ineffective, or materially interfere with, the price-support program of the United States Department of Agriculture. For the past fourteen years, import restrictions have been in effect under regulations adopted pursuant to Section 22 of the Agricultural Adjustment Act with respect to the principal cheeses imported into the United States, namely, Italian type cow's milk cheese, edam and gouda cheese, cheddar cheese, and blue-mold cheese, and with respect to other dairy products including butter, dried whole milk and dried skim milk, milk powder, dried cream, and dried buttermilk.

Hearings were held before the Tariff Commission in May of this year pursuant to Section 22 of the Agricultural Adjustment Act, as a result of which import restrictions have been imposed, effective July 1, 1967, on American type cheese, including colby and other specifically named cheeses of this type, and on butterfat-sugar mixtures containing 5.5% or more of butterfat. There is still pending, however, before the Senate, S. 612, a bill to regulate imports of milk and dairy products, which bill would place across-the-board restrictions on all dairy products and cheeses of every variety including those which are not manufactured in the United States and which have historically been imported from abroad.

It is submitted that the existing legislation, namely, Section 22 of the Agricultural Adjustment Act, provides the best method of dealing with imports of products such as dairy products which are subject to a price-support program. The effectiveness of the additional import restrictions imposed effective July 1, 1967 to meet the complaint of the domestic dairy industry is demonstrated by the statistics of imports published by the Department of Agriculture in its publication "Dairy Situation" of September 1967, a copy of which is submitted herewith. It will be noted from this tabulation that the amount of quota type cheese imports in July 1967 amounted to 21% of imports of the same types of cheese during July 1966, and that the milk equivalent of imports of all dairy products in July 1967 amounted to only 16% of the total dairy products imports in July 1966.

DAIRY PRODUCTS: U.S. IMPORTS, QUOTA AND NONQUOTA PRODUCTS, TOTAL 1966 AND JULY 1966-67 [1]

Product	Quota (calendar year) [2] pounds)	Calendar 1966 imports (thousand pounds)	July 1966 (thousand pounds)	July 1967 (thousand pounds)	1967 as percentage of 1966	1967 cumulative to date	
						January to July (thousand pounds)	1967 as a percent of 1966
Cheese:							
Quota types:							
Cheddar	10,037,500	4,181	358	3	1	1,584	53
Other American types [3]	6,096,600	45,994	4,901	....	......	[4] 53,546	268
Italian types	11,500,100	8,228	375	598	160	7,077	153
Edam and Gouda	9,200,400	10,897	477	500	105	5,578	101
Blue mold	5,016,900	5,173	225	252	112	2,758	80
Total	41,851,500	74,473	6,337	1,353	21	70,543	196
Nonquota types:							
Swiss	....	23,874	1,642	1,529	93	12,382	114
Pecorino	....	15,758	601	1,058	176	8,094	119
Roquefort	....	1,861	152	172	113	1,007	102
Other [5]	....	19,507	982	2,292	233	15,589	183
Total	....	61,000	3,377	5,052	150	37,072	136
Other quota products:							
Butter	707,000	667	25	23	92	355	101
Butter oil	1,200,000	1,200	....	....	......	1,200	100
Butterfat/sugar [6] Butterfat/other [7]	2,580,000	105,626	19,138	 168	1	28,834 [4] 60,832	123
Frozen cream	12,540,000	15,387	500	....	......	9,460	93
Dried cream	500	....	....	....	......	....	....
Dried whole milk	7,000	7	....	....	......	....	....
Dried skim milk	1,807,000	2,835	44	....	......	125	11
Dried buttermilk	496,000	401	68	11	16	102	42
Malted milk	6,000	1	....	....	......	1	100
Nonquota products:							
Canned milk	....	3,280	109	244	224	4,264	369
Casein	....	107,906	12,561	9,355	74	56,682	85
Milk equivalent (fat solids bases): Total all products	....	2,775,000	333,600	53,300	16	2,419,500	141

[1] Preliminary.

[2] Effective July 1, 1967.

[3] Including Colby.

[4] Includes earlier entries of butterfat-sugar mixtures and Colby cheese not reported by Census until July and quantities afloat on June 30.

[5] Gjetost, Bryndza, "Other," and Gammelost and Nøkkelost.

[6] Under the sugar quota, containing less than 45 percent butterfat and more than 25 percent sugar in solids.

[7] Not under the sugar quota, containing less than 45 percent butterfat and less than 25 percent sugar in solids.

The facts and figures with regard to imports of foreign type cheeses, which include roquefort cheese, Italian type cow's milk and sheep's milk cheese, blue cheese, edam and gouda cheese, swiss cheese, and a considerable number of other specialty cheeses, such as fontina cheese, port du salut cheese, noekkelost cheese, etc., over a period of thirty years, the latter half of which have been in part under import restriction, demonstrate that imports of foreign types of cheese have not materially increased, and especially so when compared to the population increase. The cheese importing industry is a small industry, amounting in its entirety to less than two-thirds of a pound per capita per year.

Imports of foreign types of cheese have served to satisfy consumer tastes for foreign cheese and have helped stimulate and develop the domestic industry in such varieties as domestically made Italian type cheese, blue mold cheese, edam and gouda cheese, swiss cheese, and other cheeses which have very substantially increased in volume of production and consumption while imports have been relatively stagnant. We submit a table of U.S. Cheese Production and Imports of Cheeses by Types, 1936–1939 Average and Annual Imports 1949 through 1966, together with graphs pertaining to said statistics. Some very significant facts will be noted from these statistics which prove that imports have stimulated domestic production while these historically imported cheeses have not themselves substantially increased and, in fact, in many instances, the volume of imports of foreign types of cheese have decreased. I draw your attention, for example, to Italian type cow's milk cheese. You will note that the annual average of U.S. production, 1936–1939, just prior to World War II, was 15,463,000 lbs. Since then, the amount of production has increased 1800 % to 270,030,000 lbs. In the last ten years alone, the production of Italian type cow's milk cheese has more than doubled. It will be noted from the statistics of imports that imports are relatively at the same level as they were just prior to and after World War II and that total imports of 8 million pounds represent only about 3 % of domestic production and is less than the amount that was imported in any of the last five years, with the exception of 1965.

I draw your attention to production and imports of swiss cheese in the United States, as set forth in the table submitted. You will not that domestic production has more than tripled since just prior to World War II, and that from 1957 to the present, annual domestic production has gone up from 100 million pounds to 134 million pounds. Imports represent barely 10% of domestic production, and even with the increase in 1966, the level of imports is only 50% more than that imported thirty years ago as compared to the 300% increase in domestic production. Examination of the statistics with regard to imports of blue mold cheese indicate a steady and every increasing production of this foreign type of cheese, the manufacture of which, as in the case of the other foreign types of cheese referred to, was introduced from abroad. Whereas in 1951 imports of blue mold cheese were 5,048,000 lbs. compared to domestic production of 7,232,000 lbs., domestic production has tripled to 22,455,000 lbs. compared to imports of about the same level as 1951. Although our table does not show the statistics of edam and gouda cheese inasmuch as these statistics have not been separately published, we are informed that domestic production of this foreign type cheese has increased and we trust to have available at the time of presentation of this statement some figures which the Department of Agriculture has indicated to us will be available by such time.

In addition to those foreign types of cheese which have stimulated production and consumption of cheese in the United States, we would like to point out that a considerable volume of imported cheeses are not duplicated by any comparable domestic cheese and that the volume even of these cheeses, which are not under import restriction, has been decreasing rather than increasing in spite of the increased per capita cheese consumption in the United States and the increased population. I draw your attention to the statistics for pecorino cheese. This is a sheep's milk cheese imported from Italy. You will note that from a high of 17,973,000 lbs. imported in 1962, which amount represented about 22% of total U.S. cheese imports during said year, imports of this variety of cheese dropped to 15,645,000 lbs. in 1966. Similarly, imports of roquefort cheese have fallen from a high of 2,392,000 lbs. In 1962 to 1,860,000 lbs. in 1966. This is even less than the amount that had been imported over thirty years ago. The point which these figures demonstrate is the fact that by and large, foreign types of cheese are specialty cheyses and their importation is limited by consumer tastes, and that no import restrictions are actually needed with respect to these cheeses. Nevertheless, some of the principal varieties are under import restriction.

Cheese importers are being made the scapegoat of what is essentially a domestic problem in the dairy industry. Basically, the milk producers' problem arises from the fact that prices they receive for their milk are claimed to be too low. The prices of most of the milk produced is set by the Secretary of Agriculture in various Federal Milk Marketing Orders in effect throughout the country. These prices are claimed to be too low to give the farmer a proper return for his product. Imports of milkfat in the form of butterfat-sugar mixtures and colby cheese are claimed to help prevent the price of dairy products in the market place from rising above that reflected in the prices fixed by the Secretary of Agriculture.

The Secretary of Agriculture is in the unenviable position of trying to satisfy the milk producer by fixing for him as high a price as possible for his milk and at the same time, satisfy the consumer by not raising the price of milk. On April 27, 1967, in response to the tremendous amount of agitation by producers, evidenced in part by the drive for legislation to impose increased restrictions on dairy products, the Secretary of Agriculture announced an increase of 20¢ per hdwt. in the price to be paid to producers of fluid milk.

MILK PRODUCTION IS IN A DOWNTREND

It is significant to note that although milk production has been going down, cheese consumption per capita has been increasing each year. Total milk production has gone down from 126 billion pounds in 1962 to 120 billion pounds in 1966. The dairy situation last year was such that the President called for an investigation by the Tariff Commission to increase quotas for the importation of cheddar cheese. In a press release at the time of last year's investigation, the Secretary of Agriculture stated:

"The action to increase Cheddar cheese imports is being taken to help alleviate an imbalance in manufacturing milk supplies which has developed as cheese and butter manufacturers compete for existing supplies of manufacturing milk. Strong demand for cheese is diverting milk from butter production. Many small creameries face disaster from the cost-price squeeze that results. The increase in butter prices that results threatens to hurt the market for butter—an action which in the long run will injure dairy farmers who produce mainly for butter production." (USDA Press Release 984–66)

The imbalance in manufacturing milk supplies was sought to be alleviated by increased cheese imports. Now it is claimed apparently that there has been an overabundance of help to correct the imbalance in manufacturing milk supplies.

The imbalance, however, of decreasing milk production is still with us. The Department of Agriculture, in support of the announcement of the increase in the price to be paid to producers for fluid milk, stated the following (Federal Register of April 27, 1967):

"The effect of off-farm opportunities for employment would be felt most in heavily industrialized states. In an area extending from the Atlantic seaboard states through Ohio, Indiana, Michigan and Illinois, total milk production continues this year under a year ago. While a number of states in other regions had increases in recent months, the most significant in quantity were the States of Wisconsin, Minnesota and Iowa, representing agricultural areas of heaviest milk milk production.

"Dairy economists in some Midwestern states pointed out that other farm enterprises have been absorbing increasing proportions of land and other production resources, thus diminishing the land and resources available for dairying. This situation therefore limits the potential for a return to former levels of milk production in these states where production has fallen off in recent years.

"National milk production in the first 3 months of 1967 continued at about the same level (up about 0.3 percent) as a year ago following the decline in 1965 and 1966. Milk production declined 2.2 percent in 1965 and 3.2 percent in 1966 from the year before."

It is to be noted that this decline alone is more than twice the amount of milk equivalent in all dairy products imported into the United States in 1966.

The statement proceeds as follows:

"The potential for possible upturn in milk production is limited by the reduced number of dairy cows now on farms. The number of milk cows on farms is currently at the lowest level in the past forty years. An immediate increase in production can only come from greater production per cow at a rate beyond what many consider likely. Feeding and management for maximum production will be required to maintain present levels of production. Proponents assert that this will occur only if producers have confidence their returns will continue at levels at least as high as in the past 12 months.

"The decline in the total milk cow population has been a definite trend since 1954 and has continued through 1966. The 6 percent decline in the January 1, 1966, total compared to January 1, 1965, was the largest year-to-year decline since 1954. For January 1, 1967, the number of cows and heifers two years old or over kept for milk declined further to 5 percent below a year earlier.

"Dairy heifers 1 to 2 years old declined in number 6 percent as of January 1, 1967, compared to a year before. The reduced ratio of numbers of such heifers to milk cows, 23.8 this year compared to 26.0 in 1960 and 1961 (and intermediate ratios in following years), indicates that lesser replacement stock is available.

"In terms of milk production, the effect of lower cow numbers has in recent months been offset by increased production per cow. This recent increase in production per cow (about 5 percent over a year ago for the first 3 months of 1967) has been at a more rapid rate than normal, and producer representatives state that it is more than could be reasonably expected to continue. Thus, prospective increases in production per cow cannot be relied upon to result in greater total milk production while cow numbers continue to decline at the same rate as in recent years.

"Producer representatives state that current ample production in certain fluid markets is due to price assurances given by previous Department actions, and particularly favorable production conditions except in the Southwest region where drought conditions have affected pastures. Because of the increasing costs and alternative opportunities for dairymen, a higher level of milk prices was held to be necessary for an indefinite period.

"Long term adequacy of milk supply in relation to total milk and dairy product consumption will be affected by the rate of population growth. During recent years milk production has declined, while the population is increasing. The effect of these two trends in opposite directions, if continued, would lead to substantial reduction in milk available on a per capita basis to consumers."

It would appear to be inconsistent, in the light of what the Secretary has said, to impose additional import restrictions on dairy products and more particularly on cheese. The Secretary states that "the decline in the total milk cow population has been a definite trend since 1954 and has continued through 1966". This trend, as well as the downward trend of milk production, existed before the claimed influx of dairy imports. This trend was definitely a factor in the rising price of domestic dairy products which caused the administration to make an immediate increase in the cheddar quota and to recommend further increases in this quota. Prices rose to a level not only above the support level, but substantially above same, and attracted foreign imports. Since then, by reason of the increased imports, prices have stabilised themselves at a more realistic level and the domestic industry, including both cheese and butter manufacturers, are able to secure milk supplies sufficient to meet their needs.

CHEESE IMPORTS REPRESENT BUT A VERY MINUTE PART OF THE U.S. DAIRY INDUSTRY

As shown above, and by the tables of statistics, the amount of foreign cheese consumed in the U.S. is minute. This is especially so in a country that produces 120,000,000,000 lbs. of milk and consumes over 2.7 billion pounds of cheese, including cottage cheese. Imports of all cheeses in 1966 amounted to as little as 0.2 of an ounce of cheese per capita per week. The total amount of milk equivalent in all imported cheese represents only a very minute percentage of the total U.S. milk production.

Based upon an importation of 135 million pounds of cheese in 1966, a substantial portion of which was made from partly skimmed milk, it is estimated that the milk equivalent required to manufacture said cheese is about one billion pounds. This compares with a total U.S. milk production in 1966 of about 120 billion pounds. The ratio of milk equivalent in imported cheese compared to U.S. milk production is less than nine-tenths of one percent (.9%).

The figure that in terms of milk equivalent, imports have increased from about 900 million pounds by 300% to 2.7 billion pounds, loses sight of several important facts. First, that milk equivalent in the form of cheese represents only about one-third of the total import and that domestic cheese production has increased by a far greater amount than the increase of imports (see table of imports). Second, that total U.S. milk production in 1966 was about three billion pounds less than in 1965, and that total imports of all dairy products do not even make up for this decrease in U.S. milk production. Although the figure 300% is large, the actual amount of milk equivalent in imports does not even make up for the smaller amount of milk production in 1966 as compared to 1965. Third, the said total imports include products which have historically been imported into the United States containing at least nine million pounds of milk equivalent. The 1966 reduction in milk production follows a similar reduction of about 2,800,000,000 lbs. in 1965 compared to 1964.

It is apparent that in 1966, imports were apparently necessary in order to help balance the supply demand situation in the United States, and it was for this reason that the President proposed to increase the quotas for cheddar cheese.

We note the following section from the report of Congressman Thomas B. Curtis, Congressional Delegate for Trade Negotiations, submitted to the House of Representatives on April 13, 1967:

"IMPORTS NOT THE PROBLEM

"But on the whole, and without the benefit of detailed study of this problem, the proposal that all dairy imports should without reference to further facts and argument be more strictly controlled lacks an element of good sense. A further sobering factor is that for the types of cheese under quota, imports in 1966 were actually less than imports in 1951, the year the quotas were imposed. Since 1951, U.S. production of the same cheeses increased from 1.2 billion pounds to 1.74 billion pounds. There has been no flexibility in the U.S. quota system, as there is in U.S. meat quotas, that would allow gradual increases in quotas in proportion with increased domestic consumption."

PROPOSED CUTBACK OF IMPORTS TO 1961–1965 ANNUAL AVERAGE

It has been proposed in the pending legislation that imports be restricted to the average annual amount imported in the years 1961–1965. This loses sight of the fact that there has been a substantial increase in U.S. consumption and utilization of cheese in the last six years. Production has increased from 1,592,022,000 lbs. in 1962 to 1,873,595,000 lbs. in 1966, an increase of 270,573,000 lbs.

This increase in four years alone is twice the volume of imports of all cheese in 1966. It also loses sight of the fact that imports of cheddar cheese, as well as specified other types of cheese, have been restricted and therefore always kept below the amount fixed by quota. Furthermore, that there has been no complaint until the last six months against imports of dairy products, and then only with respect to the two products previously mentioned. Only a year ago, the Administration was seeking to increase cheese imports. The annual average of American cheese produced in this country (which term in the USDA tabulation of statistics includes cheddar cheese, washed curd cheese, granular cheese, jack cheese, and monterey cheese) for the years 1961 to 1965 inclusive is 1,133,339,000 lbs. In 1966, U.S. production of American cheese amounted to 1,234,490,000 lbs. I hear no proposal to cut U.S. production back by the one hundred million pounds increase over the annual average from 1961 to 1965, nor do we propose or want such a cut. I am only trying to demonstrate the unfairness of a proposal which would further unnecessarily restrict the business of United States cheese importers whom I represent, and the discrimination against the operations of an industry that makes a substantial contribution to the dairy industry as a whole, to the tastes of the American cheese consumer and to the economy of our country.

EFFECT OF ADDITIONAL RESTRICTIVE IMPORT LEGISLATION ON INTERNATIONAL TRADE

The imposition of restrictions against the import of cheese is contrary to the obligations undertaken by the United States under the General Agreement on Tariffs and Trade and is contrary to our best interests in internationl trade.The United States sought and secured under the General Agreement on Tariffs and Trade a waiver from its obligations so that Section 22 might be applied without conflicting with its international obligations. The United States delegation, in presenting the matter at the 1955 session of the Contracting Parties, stated:

"The mere fact that the price of a product is eligible for price support and that its price is higher than world prices does not mean that import controls will necessarily be imposed under Section 22 * * * Whether such interference (i.e., with government agricultural program) will arise depends in large part on the relationship between the domestic market price and the import price. If the domestic market price is above its support level * * * no Section 22 problem arises * * * Thus, it is onl where a clear threat of injury to the program from imports actually exists that action is taken under Section 22."

The price of foreign types of cheese is above the support level and there is no real basis for continuing import restrictions on these types of cheese. As previously indicated, the volume of removal of dairy products from the commercial market is so low that i t can hardly be stated that the total supply burdens the price-support program.

Furthermore, it is contrary to our own best interests and the best interests of the American farmer to continue these import restrictions.

Remarks recently made before the Senate by Senator Stuart Symington of Missouri, which were printed in the Congressional Record of April 24, 1967 (S. 5746), are particularly in point. I quote:

"Mr. President, the Kennedy round of the trade negotiations will be ending in a matter of a few weeks. It will then be up first to the administration, and later the Senate, to evaluate the results of those negotiations and decide what has been accomplished.

"These decisions will have major import to many areas of trade, for two reasons none more important than those affecting agriculture.

"First, U.S. agricultural exports have moved ahead more rapidly than any other export item since the early 1960's; and we must be certain that the outcome of these negotiations provide an opportunity for continued maintenance and growth in these agricultural exports. This is important to farmers, to the agribusiness complex, and to our total economy.

"Second, in that these agricultural exports play a vital role in the continuing unfavorable balance of payments problem, the results of the Trade Expansion Act are important to all Americans.

"Since the early 1960's, each year U.S. agriculture has set new export records year after year. Let me cite a few facts and figures.

"U.S. agricultural exports today are at an alltime high of some $7 billion annually. That is slightly over one-fourth of the Nation's total exports—agricultural and industrial combined—and an increase of more than 50 percent since 1960."

* * * * * * *

"Exports bring the American farmer 17 cents of every market dollar he receives, or almost twice as much as a dozen years ago; in other words, the export contribution to domestic farm income has almost doubled during that period. In addition, these exports have naturally expanded income by a substantial amount through the strengthening of farm prices across the board."

* * * * * * *

"The progress in agricultural exports in the 1960's will go down in history as a great achievement, not the least of which is the healthful effect on our country's balance of payments.

"From a trade balance point of view, we are doing much better in our agricultural trade than in our industrial trade. As example, in the calendar year 1966, the United States had a total favorable trade balance of $3.6 billion; and of that total the agricultural trade balance accounted for $2.4 billion, two-thirds of this favorable margin.

"Since 1960, dollar exports of farm products have totaled $29.1 billion, which, along with $1.8 billion in 'avoided expenditures' through the use of foreign currencies acquired under Public Law 480, gave a total of $30.9 billion in dollar earnings from agricultural exports to apply against the dollar drain. Without agricultural exports, our serious international finances would be in critical shape."

* * * * * * *

"Excellent work has been done in Japan on behalf of wheat, soybeans, and tallow; in Western Europe on rice, fruit, and soybeans; and in cotton all around the world. Effective farm product promotion has also been accomplished through trade fairs abroad, particularly in the case of processed food.

"Nevertheless these imaginative promotional efforts are about powerless unless unless the doors to trade are kept open."

While negotiations go on in Geneva to reduce world-trade barriers, we are here apparently for the purpose of erecting additional U.S. trade barriers. The imposition of restrictions on the importation of cheese, and particularly upon cheeses which have historically been imported into the United States, closes the door, if not completely at least partly, to trade with countries who buy more from us than we sell to them. The following represents the volume of trade in 1966 in U.S. dollars between our country and the principal countries from which we have historically imported foreign types of cheese, as reported by U.S. Customs:

[In U.S. dollars]

Country	Export to the United States	Import from the United States
Italy	739,345,216	883,468,811
Netherlands	318,471,619	1,178,795,105
Denmark	201,140,826	179,631,144
France	687,966,130	978,010,667
Switzerland	382,318,081	376,200,748
Norway	127,813,812	143,599,323
Sweden	299,312,175	354,877,604
Argentina	145,959,276	238,582,628

The balance of trade with these countries is strongly in favor of the U.S. How can we now adopt additional legislative restrictions against cheese imports without very compelling reason (which certainly does not exist in view of the facts and Section 22 of the Agricultural Adjustment Act) without offending the countries from which we import these cheeses?

We believe that it is amply demonstrated by the foregoing that no further import restrictions should be imposed with respect to imports of dairy products, and particularly cheese. The cheese import industry has been the cornerstone of U.S. manufacture of foreign types of cheese. It has not only served the domestic industry, but has served consumers as well. Any further imposition of import restrictions would be a disservice to both industry and consumers and an unwarranted interference with our international trade.

CHEESE—U.S. PRODUCTION AND IMPORTS OF CHEESE BY TYPES, 1936–39 AVERAGE, ANNUAL 1949 THROUGH 1966

[In thousands of pounds]

Calendar year or average	American [1]		Blue-mold		Edam and Gouda		Italian cow's-milk types		
							Production		Imports
	Production	Imports	Production [2]	Imports [3]	Production [4]	Imports	Total	Hard type only [4]	Hard type only
1936–39 average	519,364	5,936	(5)	3,030	(5)	4,157	15,463	(5)	7,135
1949	935,206	3,166	9,487	1,302	4,000	908	53,517	30,350	8,088
1950	892,706	13,293	8,880	3,492	4,000	3,755	60,481	33,440	8,585
1951	873,458	12,072	7,232	5,048	4,100	4,333	55,434	25,980	6,515
1952	849,817	6,525	11,186	3,022	4,200	3,585	60,572	28,740	6,960
1953	1,021,056	7,810	10,137	3,331	4,300	4,561	67,834	30,780	8,633
1954	1,042,345	2,814	9,719	3,304	4,400	4,732	71,204	31,770	7,122
1955	1,004,269	2,577	10,047	3,984	4,500	4,915	86,018	37,850	7,130
1956	991,254	2,782	10,663	3,994	4,500	5,187	101,738	44,260	7,808
1957	1,021,728	2,243	10,864	3,596	4,100	4,580	111,620	48,323	6,624
1958	977,973	3,002	11,447	3,993	4,600	4,345	130,557	55,880	6,119
1959	942,517	2,155	12,710	4,184	4,600	5,159	140,765	59,500	7,818
1960	996,118	3,211	15,169	4,186	4,600	5,994	157,533	65,730	6,984
1961	1,148,761	1,677	16,205	3,821	(5)	7,329	161,799	(5)	7,771
1962	1,093,722	2,544	14,507	4,362	(5)	6,687	165,456	(5)	9,071
1963	1,108,351	6,811	15,416	3,910	(5)	7,489	192,228	(5)	10,200
1964	1,157,473	13,907	16,835	4,249	(5)	6,770	220,548	(5)	8,895
1965	1,158,380	16,007	19,000	4,400	(5)	7,566	244,480	(5)	7,788
1966	1,234,490	50,175	22,455	5,173	(5)	10,897	270,030	(5)	8,228

Calendar year or average	Perocino imports	Roquefort imports	Swiss or Emmenthaler		Gruyere imports	All others [6]		Total cheese	
			Production	Imports		Production	Imports	Production	Imports
1936–39 average	15,284	2,479	41,824	9,270	2,888	104,586	8,321	681,237	58,500
1949	6,960	1,394	81,043	5,777	1,343	116,189	3,088	1,199,442	32,015
1950	13,071	1,641	99,483	6,923	1,490	125,937	3,923	1,191,487	56,173
1951	9,626	1,688	92,049	7,848	1,625	129,031	3,580	1,161,304	52,335
1952	12,716	1,815	108,032	7,561	2,816	136,455	4,207	1,170,262	49,207
1953	12,313	1,806	103,780	8,656	3,215	137,293	5,890	1,344,400	56,215
1954	13,317	1,879	113,525	8,422	3,085	142,041	5,283	1,383,234	49,958
1955	13,242	1,630	116,664	8,641	3,585	145,395	6,247	1,366,893	51,951
1956	13,742	1,861	123,216	8,319	3,683	156,321	6,341	1,387,692	53,717
1957	12,281	2,097	100,048	8,965	3,808	159,063	6,683	1,407,423	50,877
1958	14,735	2,036	107,114	9,341	3,669	167,693	8,497	1,399,384	55,737
1959	13,992	2,275	111,901	11,495	4,423	169,724	12,357	1,383,061	63,858
1960	13,928	2,094	121,081	9,935	4,752	184,585	12,065	1,477,973	63,149
1961	14,877	2,271	120,508	11,203	4,627	(5)	22,241	1,634,505	75,818
1962	17,973	2,392	109,412	12,517	4,805	(5)	17,614	1,592,022	77,614
1963	17,554	2,040	119,906	11,692	4,830	(5)	18,496	1,631,817	83,023
1964	16,639	2,004	121,844	11,506	5,173	(5)	8,734	1,726,480	77,878
1965	15,850	2,191	122,637	10,419	5,513	(5)	9,775	1,755,528	79,311
1966	15,645	1,860	134,030	14,751	9,123	(5)	4,307	1,873,595	135,473

[1] U.S. production is whole milk cheese including cheddar, Colby, washed curd, Jack, Monterey, and Grannular cheese; imports up to 1963 do not include Colby cheese.

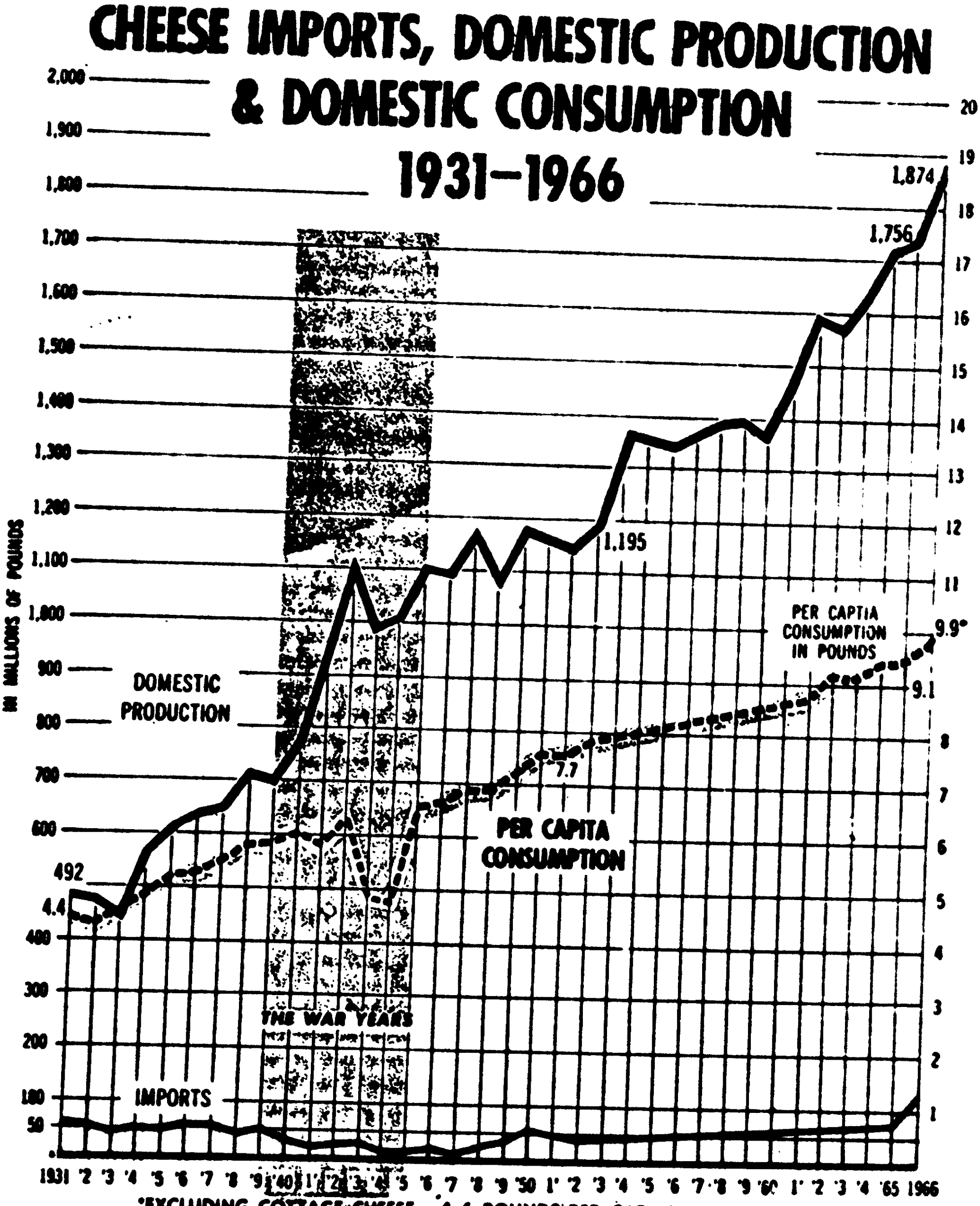
[2] Includes Gorgonzola.

[3] Up until 1963 includes only whole loaf.

[4] Estimated.

[5] Not available.

[6] Production excludes cottage types and full skim milk cheese.

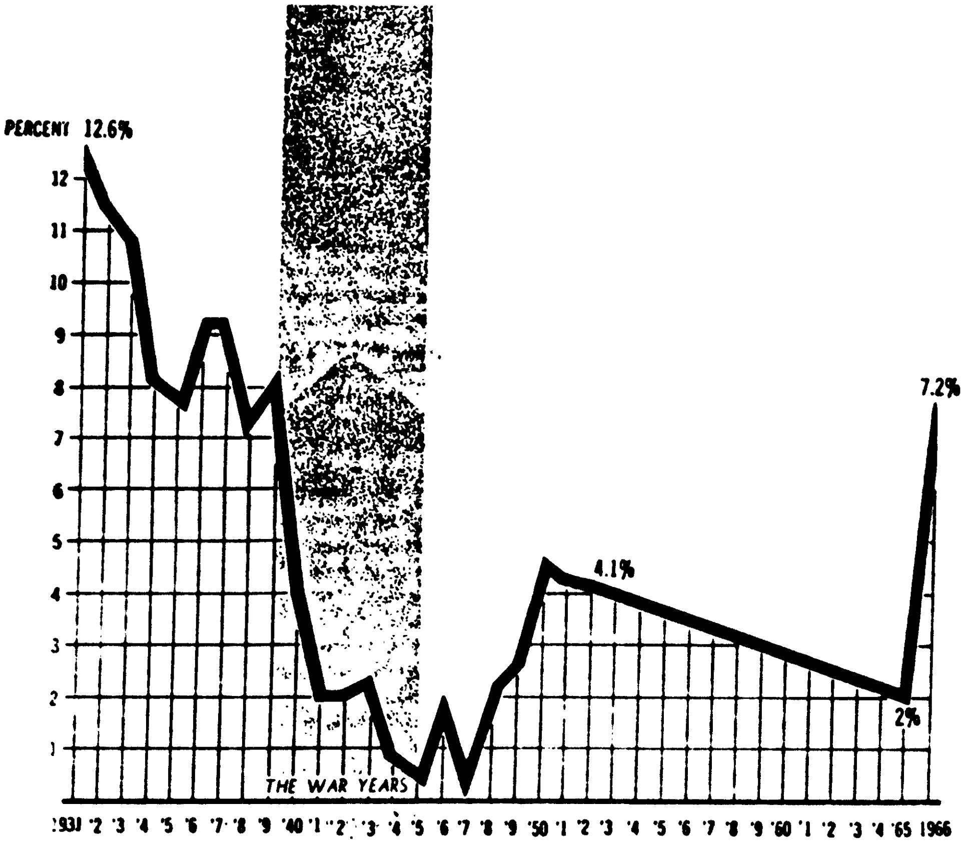


CHEESE IMPORTS, DOMESTIC PRODUCTION & DOMESTIC CONSUMPTION 1931–1966

*EXCLUDING COTTAGE CHEESE - 4.6 POUNDS PER CAP. (900,000,000 LBS.)

SOURCE: U. S. DEPARTMENT OF AGRICULTURE & U. S. DEPARTMENT OF COMMERCE

RATIO OF CHEESE IMPORTS TO DOMESTIC CHEESE PRODUCTION 1931–1966



SOURCE: U. S. DEPARTMENT OF AGRICULTURE & U. S. DEPARTMENT OF COMMERCE

GROUNDFISH IMPORTS*

90TH CONGRESS
1ST SESSION

S. 2411

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 14, 1967

Mr. MORSE (for himself, Mr. HATFIELD, Mr. BARTLETT, Mr. BROOKE, Mr. GRUENING, Mr. MUSKIE, Mr. MAGNUSON, and Mr. JACKSON) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Tariff Schedules of the United States to provide that the amount of groundfish imported into the United States shall not exceed the average annual amount thereof imported during 1963 and 1964.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the headnotes to part 3 of schedule 1 of the Tariff Schedules of the United States (19 U.S.C. 1202) are amended by adding at the end thereof the following new headnote:

"(5) Notwithstanding any other provision of the schedules, the aggregate number of pounds of fish which may be entered under item 110.20, 110.47, 110.50, 110.55, or

II

*Witness testifying on this subject, pp. 157–160.
Communications received by the committee on this subject, pp. 160–171.

110.60 in the calendar year 1968 or in any subsequent calendar year shall not exceed the average annual number of pounds of fish described in such item entered during the calendar years 1963 and 1964 (as determined and published by the Secretary of the Interior). Of the aggregate number of pounds of fish permitted by the preceding sentence to be imported into the United States during any calendar year under any item, not over ¼ shall be entered during the first three months, not over ½ during the first six months, and not over ¾ during the first nine months of that year. For the purposes of applying this headnote, item 110.20 shall be treated as not including salmon."

The CHAIRMAN. Senator Morse?

STATEMENT OF HON. WAYNE MORSE, U.S. SENATOR FROM THE STATE OF OREGON

Senator MORSE. Mr. Chairman, I prepared a detailed statement setting forth my arguments in support of import quota bills that are of special importance to Oregon, including beef imports, bottom fish and mink skins.

I want you to know that I support the bill that you have introduced. I am not going to take the time to read my statement. It is more important, I think, that we hear these out-of-town witnesses. I know my statement will receive your careful consideration. I am going to ask permission to file the statement.

You know, I am sure, my position on the Foreign Relations Committee. I have been one of the outspoken critics now for some years of a program that is selling short the economic interests of our country by the State Department in regard to foreign trade and particularly in the field of agriculture. What they need is somebody over in the State Department who knows something about agriculture. I have yet to find one. It is very important that we draw this issue with the State Department. This legislation will draw it.

We have the duty as legislators, in my judgment, to check the unsound economic policies of the State Department in the field of the foreign trade. I shall support this legislation because I think it does check those policies. Also, it is my advice to this administration, that unless it pays some heed to this type of legislation, it is going to hear from the people of this country who are suffering great losses at the hands of a State Department that apparently wants to put industrial things first, but forgets about the agricultural and other resource products of the country that ought to be protected. I do not happen to be a high tariff man but I am a strong import quota man.

Thank you very much.

The CHAIRMAN. Thank you very much, Senator Morse, and we will print your statement in full at this point in the record.

(The full statement of Senator Morse follows:)

STATEMENT OF HON. WAYNE MORSE, A U.S. SENATOR FROM THE STATE OF OREGON, BEFORE SENATE FINANCE COMMITTEE ON IMPORT QUOTA BILLS OF IMPORTANCE TO OREGON

Mr. Chairman and members of the Subcommittee:

I am happy to appear before the Committee today in support of S. 1588, an effort by this Congress to more accurately predict and control the amount of meat imported into the United States in an effort to stabilize the American market. As the Committee knows, the 88th Congress adopted legislation in 1964, later to become PL 88–482, in an effort to assist our cattlemen to better anticipate the amount of foreign meat arriving each year. After 33 months of experience with that bill, it is apparent that certain additions and corrections are necessary. This proposed legislation has the strong support of the Oregon Cattlemen's Association.

Oregon cattle raisers, corresponding with me about this problem, have urged numerous changes in the present law, including: (1) establishment of quotas on a quarterly basis, thus helping to spread the imports out over the calendar year; (2) utilization of a more restrictive base period; (3) inclusion of processed meat within the quotas, and (4) inclusion of non-Federally inspected meats.

Oregon ranchers emphasize that they are caught in a squeeze: at a time when their costs are pyramiding, they are being asked to reduce production to improve the price picture. Some ranchers are voluntarily selling their cattle earlier, when they weigh less, but feel that is hardly fair for them to make such efforts unless they are protected from the increasing tide of foreign imports.

This point warrants considerable emphasis. Many Oregonians have pointed out to me that the price they are receiving for cattle is about the same as it was fifteen years ago. They are frank to admit that domestic production is a factor, but I have been repeatedly asked why they should work hard to curb production if meat continues to be imported from other countries at high levels. As one Oregon rancher, John M. Boyer of Haines, Oregon, wrote to me: "We in the industry are working on the domestic issue, but it will be futile to curb our production only to make a market for foreign beef here in the United States."

As another of my constituents wrote:

"The present legislation restricting imports is ineffective because of the elasticity of the upper levels at which quotas can be imposed. It does little good to attempt to bring our domestic supply situation into the line with a reasonably profitable market, and then to have an increase in foreign imports raise the supply back to its present high level. We do not, of course, advocate the complete elimination of beef imports, as we realize that foreign trade must be a two-way street. However, with the present legislation, it appears that any time we, in this country, arrive at a favorable supply situation, imports can increase to where we are right back where we started and foreign producers reap the benefits of our self-discipline."

I submit to the Committee that this statement, made by the President of the Harney County Stockgrowers Association in Burns, Oregon, evinces an entirely responsible and commendable attitude by the cattlemen. It warrants the sympathetic attention and support of this congress.

One aspect of the 1964 legislation which this bill would correct relates to the 10% "leeway" before the quotas are invoked. As you know, under PL 88-482, the quotas are not invoked until imports exceed the quotas by 10%, thus creating a trigger-point of 110%. I am informed by the American Cattlemens' Association, however, that exporting countries have been gearing their production toward the higher "trigger-point" and thus planning production to exceed their actual quota. This situation is artificial on its face and would be corrected by S. 1588. A realistic quota would be established and the 10% "trigger-point" eliminated, thus dispensing with considerable confusion, both here and abroad.

The beef industry in our country involves over two million people and embraces some part of the economy of each of the 50 states. It is an industry which has made considerable effort over the past few years to help itself, by curtailing production in certain areas in an effort to obtain a more favorable price. But many ranchers are still unable to make ends meet. And for far too many, the future does not appear particularly promising.

S. 1588 is obviously not a cure-all, but I believe it will help to stabilize the beef production picture and enable the cattle growers to obtain a more favorable return for their efforts.

They have done much to help themselves. I believe they deserve the support of the Congress and for the reasons I have outlined, I strongly support approval of S. 1588.

BOTTOM FISH IMPORTS

I understand that S. 2411 which I introduced limiting the amount of groundfish allowed to be imported into the United States is not on the agenda today. With your permission, however, Mr. Chairman, I wish to make a few brief comments about this important legislation.

The offshore fishing industry is of considerable importance to Oregon as well as to the other coastal states. The members of the Committee are well aware of the difficulties we experienced this past summer as a result of intensified activities of the Russian fishing fleets. The Russians made such large catches of bottom fish that there was some fear future crops might be endangered. Creation of the 12-mile limit by the last Congress has helped, but it does not respond to another very real threat to our fishing industry. I refer to the swelling tide of imports of fish and fish food products.

All of us in the Oregon delegation have received considerable correspondence on the growing threat of groundfish and bottom fish imports. We are particularly indebted to Dr. E. W. Harvey, Administrator of the Otter Trawl Commission of Oregon, for supplying pertinent evidence. Dr. Harvey's report includes the following information:

Imports of groundfish fillets into the United States are now 81% of the supply. The 1966 import figure was 315 million pounds above the five-year average of 210 million pounds for 1960–1964.

Statistics released by the Bureau of Commercial Fisheries show that the domestic catch in the United States during 1966 was the smallest since 1953.

Imports of groundfish and ocean perch fillets reached a record of over 315 million pounds, which amounted to 80.8% of the supply. The figure represents a 6.8% increase in imports for 1968 over the 1965 total of 294,954,000 pounds, which was 79.9% of that year's supply.

Since 1948, imports of groundfish and ocean perch fillets have increased 488%, which increase represents a much larger portion of the supply. In 1948, imports accounted for only 28% of the total supply, whereas in 1966, imports were responsible for over 80% of the supply.

Domestic production of groundfish and ocean perch fillets in 1966 was 74,945,000 pounds or 19.2% of the total supply.

These statistics supply convincing evidence that the marketing power of our fishing industry faces even further decline unless legislative action is taken to stem the tide of disabling competition from other nations. The bottom fish industry in particular is confronted with unreasonable competition in the market place. Foreign competitors who enjoy lower labor costs and who, in many instances are favored by subsidies, have been able to claim an ever increasing share of the bottom fish market. Today, U.S. fishermen supply only 19.2% of the national demand compared to 62.9% as recently as 1951. While the consumption of bottom fish has almost doubled, our fishermen are producing only half as much as in 1951.

In the area of Astoria, Oregon, the number of vessels engaged in bottom fishing has declined from 23 in 1956 to only 13 in 1967. If the present situation continues, the future for the offshore fishing industry in Oregon is not bright.

Certainly trade between the nations must be encouraged, but our own natural resources and industries that depend upon them must also be considered and strengthened because of their present and future importance.

For the foregoing reasons, I introduced this bill S. 2411 and I am very proud to say that this bill has the complete support of the Pacific Marine Fisheries Commission. S. 2411 was cosponsored by Mr. Hatfield, Mr. Bartlett, Mr. Brooke, Mr. Gruening, Mr. Muskie, Mr. Magnuson, and Mr. Jackson. I am pleased to have the support of these colleagues on this important bill.

The quota imposed on imported bottom fish as contained in the legislation is not, I believe, unduly restrictive, and it would give our domestic bottom fish industry a much needed breathing space and opportunity to rejuvenate.

MINK IMPORTS

Finally, may I make a few brief comments regarding S. 1856 introduced by Mr. Nelson with respect to the rate of duty on imported mink.

Many of my constituents have written to me urging support of efforts to restrict importation of mink from abroad. Oregon mink ranchers take great pride in the role they have played, not only in increasing mink production, but in helping to develop ever expanding markets for their product. Mink production is now a $160 million annual business in our country.

Information from the U.S. Tariff Commission indicates that U.S. consumption of whole mink skins has increased steadily from 10.2 million skins in 1962 to 13.5 million skins in 1966. Annual U.S. production rose from 7.3 million skins in 1962 to 9.0 million skins in 1966. By far the largest share of domestic production is produced on mink ranches. Output of ranch-mink skins rose from 7 million in 1962 to an estimated 8.7 million skins in 1966, according to statistics supplied by the National Board of Fur Farm organization.

During the same period, annual U.S. imports of mink skins rose from 3.8 million skins, valued at $52 million in 1962, to 5.7 million skins valued at $73 million in 1966. Based on quality, these imports accounted for 42% of consumption during 1962–66 period.

The average annual price received by mink ranchers for skins rose erratically from $16.66 per skin in 1962 to $19.48 per skin in 1966. In 1967, the average price is estimated to have declined to slightly less than $15 per skin. Since 1964, the average unit value of imported mink skins, based on foreign value, has steadily declined. from $14.08 per skin in 1965 to a low of $9.54 per skin in March of this year.

The anxiety of Oregon mink ranchers was expressed in a letter to me from Mr. J. Lyell Ginter, a mink rancher in Bridal Veil, Oregon. Mr. Ginter writes:

"The importers are offering mink at (the) $13 level which is 25% below the cost of production in the U.S. I know of many, many Oregon mink men who have sold none of their '66 crop and many, many who will have a large carryover on their live-stock loan from selling at below production cost. Auction company officials estimate that if this trend is not curbed over 50% of American mink men will be forced out of business."

Mr. Ginter states that information from the National Board of Fur Farm organization indicates that over 500 mink ranchers are going out of business each year and that local associations estimate that one-fifth of the approximately 500 mink ranchers in Oregon are facing bankruptcy.

The situation is extremely serious and I strongly urge the Committee to give serious consideration to the reasonable limitations on mink imports proposed by this legislation. Our mink ranchers, facing rising costs of production, deserve this assistance.

In this connection Senator Nelson introduced a bill S. 1856, now pending before this Committee. This bill would amend the tariff schedules with respect to the duty on mink skins to assure decent returns to mink raisers. I believe S. 1856 deserves serious consideration by the Committee.

(Following are communications received by the committee expressing an interest in the preceding subject:)

Statement of Hon. Edward W. Brooke, a U.S. Senator of the State of Massachusetts

The fishing industry in the United States is in a serious state of decline. Old vessels, outdated fishing methods, inadequate storage and preservation facilities, all help to reduce the amount of fish which can be caught and marketed by American fishermen. The lower amount of the catch has the effect of reducing the amount of capital available for improvements in vessels and equipment. The result has been that foreign imports of fish have increased drastically in the postwar period.

In 1940, the United States imported less than 10 million pounds of fish per year, for which we paid approximately $850 thousand. Fifteen years later we were importing more than 128 million pounds of fish per year, at a cost of nearly $25 million. By 1966, our imports had risen to nearly 8.1 billion pounds of fish per year, the total cost of which was $720 million. At the present time, American fishermen are providing less than 20 percent of the American consumer demands for fish and fish products.

Clearly, something must be done to aid the American fishing industry if the American fishing industry is to survive. This assistance can take two possible forms: financial assistance, in the form of subsidies, tax incentives, loans and investment guarantees; or quotas on imports which would guarantee a standard percentage of the American market for our domestic catch.

I believe that an approach which utilizes both of these forms of assistance is necessary.

A rudimentary program of financial assistance is already in effect: subsidies and loans are provided for the construction and improvement of vessels and the purchase of modern equipment.

But the tariff rates which are presently in effect have had a minimal impact upon fish imports. A maximum tariff of 2 cents per pound on frozen fish blocks, for example, does not prevent Canadian fishermen from making a substantial profit when selling their products in American markets. The Canadians have become the major suppliers of New England fish processors, providing the frozen fish blocks from which are made most of our fish sticks, fish cakes, and similar fish products.

Due to the lower cost of labor, plus the substantial subsidies provided by the Canadian government for fishing vessel construction, the fishermen of the United States are unable to compete successfully.

As a result, the American fishermen have been compelled to supply a highly specialized market: the market for fresh fish. Most species which are sold as fresh fish are less plentiful, and therefore more costly to catch, than those which are sold as frozen fish blocks. Fresh fish must be handled more carefully to prevent damage to the flesh, and they are harder to preserve and transport. Thus the overall cost of marketing fresh fish in higher, the price for the product on the market is higher, and consequently there is much less of a market for fresh fish than for processed frozen fish products. The result has been that more and more of our domestic fishermen have been forced out of business.

A quota on fish imports which would guarantee to our fishermen a certain percentage of the American market would be of great value.

I am privileged to Co-sponsor a bill, S. 2411, introduced by Senator Wayne Morse, which would place a quota on the amount of groundfish imported into the United States. Under this bill, the amount of our imports could not exceed the average annual amount imported during 1963 and 1964. Imports in those years already supplied nearly 70 percent of the American market for fish products. Thus under this bill the vast majority of the American demand for fish would still be met by foreign imports. But a portion of the market would be reserved for our own fishermen. They would not be driven out of business by foreign competition. I submit that such a quota on fish imports would have a cumulative and salutary effect upon the American fishing industry and upon the American economy as a whole.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance,
Senate of the United States, Washington, D.C.

DEAR MR. CHAIRMAN: At the general policy hearings held by your committee today, I understand that import quotas will be considered for several American manufactures which are seriously endangered by foreign competition. May I urgently request that appropriate attention be given to the situation which faces the American groundfish industry today.

On August 29, Congressmen Wyatt, Ullman, and I, filed H.R. 12696, which proposes an annual quota on groundfish imports in order to reserve a portion of the domestic market for American producers. We consider this restriction necessary and timely, since U.S. fishermen today provide only 19.2% of the groundfish consumed in our country, compared with 62.9% in 1951. If our domestic industry is not to become extinct altogether, import restriction must be enacted now.

H.R. 12696 provides that the total amount of groundfish products imported each year shall not exceed the average amount for 1963 and 1964. In overall terms, this would only be a cut of less than a third, but it would reserve part of the American market for our own fishermen. The legislation has been filed in the Senate by Senators Brooke, Muskie, Bartlett, and Morse, and is receiving wide support from representatives of many coastal states.

I hope that you will give serious consideration to this industry which is so vital to the economy of my district and all of Massachusetts and to many coastal communities around the United States.

Sincerely,

HASTINGS KEITH,
Member of Congress.

STATEMENT OF HON. WENDELL WYATT, A U.S. REPRESENTATIVE FROM THE STATE OF OREGON

The bottom fish industry in this nation is in deep and dire trouble. Bottom fish, interchangeably called groundfish, are those that commonly provide the bulk of the fish consumed in this country, both commercially and in home use. Included among the bottom fish are cod, haddock, hake, ocean perch, sole, mackerel, mullet, sea bass, shad, snapper, swordfish, and many many other varieties.

Foreign imports of these many species of bottom fish have cut drastically and deeply into the American bottom fisherman's share of the groundfish market in the United States. Imported in all manners, fresh, block, slab, and other, these foreign bottom fish imports have edged our own fishermen out of the domestic market to such an extent that in 1966 our own trawlers provided only 19.2 per cent of the bottom fish consumed in this country.

There has been a steady decline in the American percentage of the bottom fish market since 1949, when our fishermen produced 74.6% of all the bottom fish consumed in the United States. In 1951 our bottom trawlers produced the largest catch they have ever recorded, well over 148 million pounds. Since then it has been all downhill for our domestic bottom fishermen.

In 1951, our peak year for domestic production, foreign imports were just over

87.6 million pounds. Last year they totalled well over 315 million pounds, while the United States catch was just under 80 million pounds of bottom fish.

To have dropped from producing 74% of the catch to just 19% in only 18 years is a starkly rapid decline. If the rate stays the same our domestic bottom fish industry has, at most, 6 years before it is utterly non-existent . . . extinct! We will be doing a great disservice to our bottom fishermen and to ourselves as a nation if we do not quickly and decisively put an end to this tragic state of affairs.

Not only is the annual imported poundage of bottom fish increasing, but also the value per pound. This geometrically adds to our international balance of payments problems. Canada is the biggest producer of bottom fish imported into this country.

In that nation, as in most nations trading in bottom fish with the United States, our fishermen are subjected to what amounts to unfair competition with the Canadian government. Canadian ground fishermen are aided through government price supports, a fisheries salt assistance program, and a vessel subsidy. Norway, another big exporter of bottom fish, guarantees minimum incomes to fishermen.

In my own district, Oregon's First, the situation is critical. Boats are being driven out of the bottom fish trade at a startling rate by economic pressures created by this mass influx of foreign bottom fish.

In the Astoria, Oregon area alone in 1966 there were 23 boats trawling for groundfish. This year there are only 13. The annual payroll for bottom fish processing in that area in one plant alone has dropped from $126,500 in 1963 to just $37,300 for the first half of this year.

Legislation has been introduced to alleviate some of the pressure from the great bulk of these foreign imports that are swamping our fishermen. Senators Morse, Hatfield, Brooke, Muskie, Bartlett and Gruening have all introduced a bill to set a quota on the annual import of these bottom fish. Such a quota is plainly necessary.

In the House of Representatives Congressmen Al Ullman, Hastings Keith, and myself have introduced identical legislation. Others have also supported a quota on bottom fish imports.

Such a quota must be enacted very soon, or there will be no bottom fish industry in this country left to save. The quota proposed is not a harsh one. It sets the quota at the average number of pounds imported in 1963 and 1964. This would be over 239 million pounds of bottom fish. Last year 390 million pounds were consumed.

Allowing for a certain percentage of growth in the consumption, the proposed quota would still allow foreign imports over 60 per cent of the domestic bottom fish market.

But it would do more. It would allow our fishermen a kind of breathing room, a chance to market their product at a decent price. It would give them a chance to climb back into a fair and solid position in the market.

With all the subsidies given our American fisherman's competitors by their governments, it would seem the very least we could do to give our own trawlers an even break at the domestic market. If we delay too long it will be too late. Action is necessary, and necessary now, if we are to save an important American industry from utter extinction.

Thank you for allowing me to testify.

Office of the Governor,
Salem, Oreg.

Hon. Russell B. Long,
U.S. Senator, Chairman, Committee on Finance, New Senate Office Building, Washington, D.C.

Dear Senator Long: Occasionally our zealousness about maintaining a proper balance in international trade adversely affects specific factors of our national economy. This is the case as it relates to the groundfish industry on both coasts.

Rather than barrage you with facts and details, which I am sure will be presented by experts in the field, may I simply say that the passage of S. 2411 is definitely in the best interest of our Nation's coastal states. At the same time, it recognizes that foreign subsidies of the groundfish industry are creating a great harm for our domestic producers, workers and processors.

I urge the favorable consideration of your Committee on S. 2411 and would appreciate your making my views a part of the record. I am reluctant to speak for the Governors of my neighboring states, but they have informed me that they share my concern.

Sincerely,

TOM MCCALL, *Governor.*

OREGON STATE SENATE,
Salem, Oreg.

Hon. RUSSELL B. LONG,
Chairman, Senate Finance Committee,
U.S. Senate, Washington, D.C.

DEAR SENATOR LONG: The writer introduced in our last legislative assembly the quota protection memorial to Congress—S.J.M. 9 on behalf of the ground-fish industry. This memorial has been inserted in the Congressional Record by our Oregon Representatives Green and Ullman. The same memorial has been enacted also by Washington, California and Rhode Island legislatures, and is soon expected to be by Massachusetts.

Living in Astoria, I full well know the need for this protection of our domestic fisheries. I know our loss of boats and fishing men, the decline in wages in the processing plants, and the generally depressed condition of the entire industry. The thirteen boats left out of last year's twenty-three in this immediate area are limited to amounts of various species they can bring in because of the poor marketing conditions for domestic fishery products due to the lower priced and increasing importations. This is unfair, unjust and an unequitable situation for our American industry.

Oregon's 1st District Representative Wyatt, with our Rep. Ullman and Rep. Keith of Massachusetts has introduced H.R. 12696 in the House. And Senators Morse and Hatfield have introduced a companion bill in the Senate with co-sponsors Bartlett and Gruening (Alaska), Muskie (Maine), and Brooke (Mass.). This legislation would maintain quota protection at the 1963–1964 level. The U.S. fishermen produced only 19.2% of the total consumed in the U.S. in 1966. These bills are designed to give our U.S. industry a small margin of production for domestic consumption. By doing so, it will help to rejuvenate our industry on both coasts, and not impair free trade. It will give the American producers and processors a little leeway for growth and expansion. The three west coast Governors favor the proposal. I enclose a list of endorsements from both coasts for your consideration.

I strongly urge you to consider this legislature with favor. May I request that this letter be read before your committee.

Sincerely,

D. A. THIEL.

ENDORSEMENTS—QUOTA PROTECTION FOR THE U.S. GROUND-FISH INDUSTRY

Otter Trawl Commission of Oregon—Astoria
Seafoods Dealers Association, Inc.—Astoria, Warrenton
Point Judith Fishermen's Cooperative Assn.—Narragansett, R.I.
Fishermen's Marketing Association of Oregon—Astoria
Oregon A.F.L.-C.I.O.—Salem
National Fishermen & Wives, Inc.—Region II
United Packing House Food & Allied Workers
Alaska Fishermen's Union—Seattle
Columbia River Fishermen's Protective Union—Astoria
Astoria Chamber of Commerce Fisheries Committee—Astoria
Fishermen's Marketing Assn. of Washington—Seattle
Humboldt Fishermen's Marketing Assn.—Eureka
West Coast Trollers Association—Seattle
Fishermen's Marketing Assn. of Northern California—Eureka
Congress of American Fishermen—Alaska, Washington, Oregon, California
Oregon State Fur Breeders Association—Salem, Oregon
Oregon Fur Producers Association—Astoria
Pacific Coast Fur Breeders—Tillamook, Oregon
Pacific Fur Foods, Inc.—Boring, Oregon
Atlantic Fishermen's Union—Boston, Mass.
Seafood Dealers Association of New Bedford—New Bedford, Mass.
Pacific Protein, Inc.—Aberdeen, Washington
American Tunaboat Association—San Diego, California
Domestic Seafoods Producers Assoc. of New England—Gloucester, Mass.

HALL OF REPRESENTATIVES,
Salem, Oreg.

Hon. RUSSELL B. LONG,
Senate Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR SENATOR: The writer was able to testify for the 12-mile hearing in May, 1966 before the Senate Committee on Commerce. That congressional action, concluded about a year ago, was a step in the right direction to conserve and preserve the fisheries.

Now, however, our ground-fish industry of the U.S. has a very critical problem—that of importations. In 1966 only 19.2% of the total *ground-fish* consumed in the U.S. was from domestic production. Obviously that means that 80.2% was from importations. This is unfair, unjust and an unequitable situation for our producers, processors, and plant workers, as those nations subsidize their fisheries well.

Our Astoria boats (13 left this year out of 23 in 1966) are on limits of amounts they can bring in for filleting, our wages to workers are declining, and in general the entire industry is in an economic decline because of the continual increase in importations, with the resulting poor marketing conditions. Having my office in our largest fishing port, I am keenly aware of this situation, and I know it is occurring elsewhere on this coast and on the east coast.

H.R. 12696—"Quota Protection at the 1963–1964 level" has been introduced by Oregon's Wyatt and Ullman and Keith of Massachusetts. On September 14th our Oregon Senators Morse and Hatfield, with co-sponsors Bartlett and Gruening (Alaska), Muskie (Maine), and Brooke (Mass.) introduced a companion measure in the Senate—S. 2411. Senators Magnuson and Jackson (Washington) in late September became co-sponsors and their names by consent of the Senate have been added. This legislation will not impair free trade, and will give a small margin for domestic growth.

In order to protect our domestic industry from further deterioration, I urge you to look with favor upon this legislation. And may I request that this letter be read before your committee.

Sincerely,

WM. H. HOLMSTROM.

FISH COMMISSION OF OREGON,
Portland, Oreg.

Hon. RUSSELL B. LONG,
Chairman, Senate Committee on Finance,
New Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: We understand that your committee has SB 2411, which limits groundfish imports into the United States, under consideration. We support the principles of SB 2411.

There is no question that the unrestricted importation of groundfish has limited the growth and adversely affected the economy of the Pacific Northwest groundfish fishery.

SB 2411, by limiting the amount of groundfish imported, would allow our local fishermen to compete more favorably for the domestic market—a market which we feel rightly belongs to them. Restriction of groundfish imports is a positive step toward bringing the trawl fishery back to a financially sound industry.

We wholeheartedly endorse this bill and wish you success in getting it passed into law. Please call upon us at any time, if you feel we can be of assistance.

Sincerely,

ROBERT W. SCHONING,
State Fisheries Director.

LOCAL UNION 554,
UNITED PACKINGHOUSE FOOD & ALLIED WORKERS, AFL–CIO.,
Astoria, Oreg.

Senator RUSSELL B. LONG,
Chairman, Committee on Finance,
New Senate Office Building, Washington, D.C.

DEAR SENATOR LONG: Our Union urges the passage of S.B. 2411. We must have a quota protection on the amount of groundfish imported into the United States.

The import volume is growing steadily, forcing American fish products off the market and threatening our bottom fishing industry with extinction and this problem is growing worse.

The Oregon State AFL–CIO Convention held in September went on record endorsing a resolution for a quota protection for the U.S. ground fish industry.

We will sincerely appreciate any help you can give us on this very important bill. With kindest regards.

Sincerely yours,

JEAN HOLTHE,
Financial Secretary and Treasurer.

OREGON AFL–CIO,
Salem, Oreg.

(AIRMAIL)

Senator RUSSELL B. LONG,
Chairman, Committee on Finance,
New Senate Office Building, Washington, D.C.

DEAR SENATOR LONG: We request and strongly urge favorable action on the *ground fish* quota protection Bill, S–2411. We understand Hearings on this will start next week.

Enclosed is copy of Resolution which was adopted at our Convention last month in reference to support.

The States of Washington and California have passed similar Resolutions and sent Memorials.

We appreciate your consideration and support of this matter.

Thank you.

Sincerely,

EDWARD J. WHELAN,
Executive Secretary-Treasurer.

RESOLUTION NO. 21.—TO AID OTTER TRAWL INDUSTRY

Introduced by Jean Holthe and Lucille Braley for United Packinghouse, Food & Allied Workers Local 554. Referred to Committee on Grievances.

Whereas, the Oregon Otter trawl fishing industry is being severely damaged by the importation of foreign fishery products of similar species of sole, cods, rock fishes and halibut.

Whereas, this next six months will see more tariffs removed from foreign imports of bottom fish as a result of the Kennedy round agreement, and

Whereas, our congressmen are now in the process of presenting legislation to congress to relieve this situation, therefore be it

Resolved, that the Oregon AFL–CIO go on record to aid the Otter trawl industry wherever possible and assist in passing this legislation.

RESOLUTION NO. 45.—IMPORTS OF FISHERY PRODUCTS

Introduced by Lloyd Knudsen, Maritime Trades Dept. AFL–CIO Portland and Vicinity. Referred to Committee on Grievances

Whereas, imports of foreign fishery products now exceed 12 billion pounds annually and,

Whereas, the U.S. balance of payment deficit in fishery products for the following years is as follows:

1963 $416,600,000; 1964–65 $480,600,000; 1966 $638,900,000; and,

Whereas, the millions of dollars expended by the American people on foreign fishery products, constitute a tremendous subsidy for foreign fishery fleets, enabling such foreign fleets to build and equip fishing vessels far superior to American fishing vessels and,

Whereas, imports of proportions enumerated herein if allowed to continue and maintain the increases we have observed over the past several years will most surely destroy the American fishing industry, and

Whereas, such destruction will not only affect the economy of our fishing industry but will also seriously affect conservation and thus deplete a valuable food supply of utmost importance to the American people, and

Whereas, imports as now constituted have resulted in a U.S. catch of 4.3 billion pounds of fish in 1966, the lowest catch record since 1943 and,

Whereas, instead of increasing tariff rates on fishery products to furnish some protection for American fishermen, present tariffs already much too low, have been cut in half.

Therefore be it resolved this convention go on record, to do everything possible for the establishment of a quota which will limit importation on fishery products which the American fishing industry can produce in necessary quantities to fill the needs of American markets and thus allow American fishermen a reasonable share of their own markets such quota to be at least 60% of present market needs.

Be it further resolved quotas are necessary to insure economic stability in the U.S. fishing industry, and also to strengthen the determination of American fishermen to promote and work for conservation programs which will maintain present U.S. fishery resources on a sustained yield basis.

Be it finally resolved, copies of this resolution be sent to AFL–CIO, so that the full strength of organized labor can be utilized for the benefit of an industry which cannot survive unless help is forthcoming, to all appropriate governmental agencies and to members of Congress.

Columbia River Fishermen's Protective Union,
Astoria, Oreg.

Senator Russell B. Long,
Chairman, Committee on Finance,
New Senate Office Building, Washington, D.C.

Dear Senator Long: The Columbia River Fishermen's Protective Union believes that S. 2411 should be given favorable action, because our groundfish industry can be self supporting if given half a chance.

Sincerely,

Russell Bristow,
Executive Secretary.

Pacific Marine Fisheries Commission,
Portland, Oreg.

(airmail)

Hon. Russell B. Long,
Chairman, Senate Committee on Finance,
New Senate Office Building, Washington, D.C.

Dear Mr. Chairman: The Pacific Marine Fisheries Commission which represents the States of California, Idaho, Oregon and Washington has been advised that your Committee will hold hearings on Senate Bill 2411 on October 18, 1967

This is to advise you that the Pacific Marine Fisheries Commission heartily endorses S. 2411 and its companion House of Representatives Bill 12696, to establish quarter-year quotas on the importation of groundfish.

The large, irregular, but ever-increasing importations of groundfish into the United States have had a detrimental effect on this Nation, the fishing industry and the consumer.

The importations of fish into this country have increased in amount equal to or in excess of the annual increase in use of fish in this country due to population growth. Our own fishermen have been denied this expanding market because of competition from heavily subsidized foreign fisheries, while at the same time the imports have helped to substantially increase our balance of payment deficit. Our fishermen are discouraged from intensifying and expanding their fishing efforts by the uncertainties of the domestic market, while the heavily subsidized foreign fishermen with their large distant-sea fishing vessels frequently pre-empt the grounds adjacent to our shores.

The irregularity of the imports has led to unsatisfactory market conditions. In late 1964 and early 1965, there was a scarcity of cod and haddock blocks, and the price of imported block fish rose from 24¢ to 27 to 29¢ per pound. The price for domestic fish blocks went as high as 34¢ The fishery resources of the United States include other fishes in addition to cod and haddock that could be used for fish blocks but, because of market uncertainties and market standards based on habit, there is little incentive to encourage the use of other fishes for this purpose and to assure a more constant supply of block fish.

In 1966, the domestic market for halibut (*Hippoglossus hippoglossus* and *Hippoglossus stenolepis*) was demoralized and confused by large importations of another flounder or member of the Pleuronectid family to which the halibut belong. This other flounder (*Reinhardtius hippoglossoides*), which is known variously as Greenland halibut, Greenland turbot, American turbot, turbot, and blue halibut, has been marketed as "Greenland Halibut," and, on some occasions, the name "Greenland Halibut" has led to misleading advertising. This flounder, a cheaper and inferior table-fish than halibut, has confused the consumer and driven the price of halibut down. In 1967, the price to the fisherman for halibut on the West Coast is averaging 11¢ per pound less than last year's average price and the earning of the fishing crews are reported to be 40 percent less. According to the September 6, 1967 Market News Service report (Bureau of Commercial Fisheries, Seattle), the imports of frozen Greenland halibut into New England through August 31 of this year have amounted to 3,004,300 pounds of fillets and 3,406,700 pounds of blocks compared to 509,000 pounds of fillets and 2,100,000 pounds of blocks imported during a similar portion of 1966. These imports represent increases of nearly 600 per cent for fillets and 62 per cent for blocks. The importation of Greenland halibut started about three years ago. It is probable that the importations would not have caused demoralization and confusion if they had been controlled quarterly according to an annual quota.

This year, the demand for groundfish on the West Coast is poor. In April, it was reported that market conditions were limiting Oregon trawl fishermen to one delivery per week which may not contain more than 2,000–5,000 pounds of flatfish, 35,000 pounds of Pacific Ocean perch, and 10,000 pounds of rockfish other than Pacific Ocean perch.

The Pacific Marine Fisheries Commission has previously asked, "that the U.S. Government, through its proper agencies, review the tariff on imported fishery products and recommend legislation or regulation that would provide for and encourage a healthy domestic fishery," as witnessed by the attached Resolution No. 22, "Request Federal Government to Review Tariff on Imported Fish" which PMFC adopted in 1964 and distributed widely. PMFC feels that an annual import quota for groundfish based on the average annual amount imported during 1963 and 1964 and divided into equal quarterly increments would be helpful to the Nation, the consumer and the fisherman. The Commission heartily endorses S. 2411.

Respectfully,

LEON A. VERHOEVEN,
Executive Director.

P.S.—On September 14, 1967, after a meeting in Astoria, Oregon of an Ad Hoc Committee on Surveillance (of foreign fishing fleets) 15 representatives from the fishing industry of California, Oregon and Washington met and voted unanimously in favor of S. 2411 and H.R. 12696.

L. A. V.

PACIFIC MARINE FISHERIES COMMISSION RESOLUTION NO. 22—REQUEST FEDERAL GOVERNMENT TO REVIEW TARIFF ON IMPORTED FISH

Whereas, the importance of fish and shellfish in the American diet is continually being stressed as an important protein resource, and

Whereas, there is an abundant supply of otter trawl species of fish and shellfish in waters of the Pacific coast, and

Whereas, the producers, processors, and handlers of Pacific coast seafood products believe in and encourage better production and handling methods to give the American consumer a product of the highest quality, and

Whereas, processing plants of the Pacific coast are now limiting the amount of landings on certain edible species of otter trawl products due to the heavy imports of similar species, and

Whereas, "In 1963, for the first time, over half of the U.S. supply of fish and shellfish was received from foreign countries" (U.S. Dept. of the Interior, Fish and Wildlife Service, Leaflet C.F.S. #3500);

Therefore, be it resolved, that the Pacific Marine Fisheries Commission respectfully request that the U.S. Government, through its proper agencies, review the tariff on imported fishery products and recommend legislation or regulation that would provide for and encourage a healthy domestic fishery for our abundant trawl species.

Adopted at Annual Meeting November 20, 1964, San Francisco, Calif.

ALASKA FISHERMAN'S UNION,
Seattle, Wash.

Senator RUSSELL B. LONG,
Senate Office Building, Washington, D.C.

DEAR MR. LONG: We of the Alaska Fishermen's Union would like to be recorded as in favor of Legislation to *limit imports of fishery* products that can be produced by United States citizens.

We believe that in order for the United States to remain a world power we must be able to actively demonstrate our ability to harvest the resources of some 70% of the earth's surface which is covered with water.

S-2411 would make it possible for our domestic fisheries to develop and expand and take their rightful place in the world fisheries.

Sincerely yours,

KENNETH O. OLSEN, *Agent.*

NORTH COAST SEAFOODS,
Portland, Oreg.

Senator RUSSELL B. LONG,
Chairman, Committee on Finance,
New Senate Office Building, Washington, D.C.

DEAR SIR: We, the undersigned, urgently request your favorable action on Ground Fish Quota Protection—S #2411.

We believe you have been contacted by Oregon Senator Thiel regarding the reading of his comments into the record at the next hearing.

Your help and cooperation will be most greatly appreciated.

Yours truly,

NORTH COAST SEAFOODS.
PORTLAND FISH CO.
PACIFIC SEAFOODS CO.
CHAS. BYER CO.
PLANCICH FISH CO.
OLLER FISH CO.

BOSTON FISH MARKET CORP.,
Boston, Mass.

Hon. RUSSELL P. LONG,
Senate Finance Committee,
New Senate Office Building, Washington, D.C.

DEAR SENATOR LONG: I should like to urge favorable consideration for the "Quota Import Bill on Fishery Products" legislation which is now before your committee.

I am certain that unless moderate restrictions such as those proposed by the bill are imposed very soon, the United States public will be almost entirely dependent on foreign sources for their fishery products. The impact of such a development can mean nothing but serious harm not only to our industry but to our balance of trade as well.

Thank you for your attention to this bill.

Respectfully yours.

THOMAS A. FULHAM, *President.*

STATEMENT SUBMITTED FOR THE PENNSYLVANIA CANNERS AND FOOD PROCESSORS ASSOCIATION, MUSHROOM CANNERS COMMITTEE

In response to your press release of September 29, 1967, the Mushroom Canners Committee of the Pennsylvania Canners and Food Processors Association welcomes the invitation to place its organization on record in vigorous support of the pending legislation which imposes reasonable import quotas a a number of important commodities.

The Mushroom Canners Committee is comprised of the nation's major mushroom growers and canners, and its membership accounts for approximately 75% of our domestic production of canned mushrooms. The problems which this industry has had with cheap Formosan imports is fully documented in records compiled in proceedings before the United States Tariff Commission and the President's Trade Information Committee.

Following the introduction of mushroom production into Formosa by our AID program imports from that country soared to unprecedented levels. The following chart vividly portrays the unrestrained assault which cheap Formosan imports have made on the United States market:

Year:	Volume (in pounds)
1960	None
1961	659, 707
1962	6, 379, 209
1963	11, 251, 949
1964	8, 698, 283
1965	11, 569, 517
1966	12, 771, 990
1967 (8 months)	13, 944, 386

This onslaught of Formosan mushrooms has driven some domestic producers out of business while the remaining producers have been foreclosed from any participation in the expanding American market which they created.

Attempts by this industry to invoke the so-called relief provisions of the Trade Expansion Act and the Agricultural Act of 1956 have been singularly unsucccssful. Despite a clear showing of injury help has not been forthcoming because of the hyper-technical manner in which the U.S. Tariff Commission has chosen to implement your legislation. In this regard it is interesting to note that the voluntary restraints imposed by Formosa in 1964 during the pendency of our case before the Tariff Commission have evaporated and imports are continuing their unrestrained upward spiral.

The record of our industry and other industries with the assistance provisions of the Trade Expansion Act has been disappointing. These provisions while well intentioned by the Congress have been distorted by those who administer them. With this background in mind it is apparent that import quotas such as those pending before the Committee represent the only realistic solution to a very grave situation, which heretofore has been ignored by the responsible segments of our Government. We submit that international trade is not a one-way street and that simple equity demands the selective imposition of import quotas of the type before the Committee. We urge favorable action by your Committee on the pending bills and additionally we urge that the Committee give consideration to the passage of general import quota legislation designed to assist smaller industries with import problems such as ours.

MARITIME TRADES COUNCIL OF GREATER BOSTON
AND NEW ENGLAND, AFL-CIO,
Boston, Mass.

Senator LONG,
Chairman of Finance Committee,
Washington, D.C.

DEAR SENATOR LONG: Respectfully request that a quota import on fishery products be given a favorable decision by your Committee.

Yours very truly,

JOHN F. ROMAN, *President.*

TELEGRAMS RECEIVED IN SUPPORT OF S. 2411

Aarvik, Sig, Seattle, Wash.

Ackert, James, president, Atlantic Fisherman's Union, Boston, Mass.

Anderson, Byron, Eureka, Calif.

Ballard Oil Co., Seattle, Wash.

Bisho, Edward, Eureka, Calif.

Brown, Fred, Eureka, Calif.

Bushnell, Claude, Eureka, Calif.

Degler, H. A., International Sales Corp., Seattle, Wash.

Fishing Vessel Owners Association, Pier 59, Seattle, Wash.

Geary, E. G., Jr., secretary, Fishermen's Marketing Association, Astoria, Oreg.

Grotting, Arne, Eureka, Calif.

Harvey, Dr. E. W., administrator, Otter Trawl Commission of Oregon.

Horgan, V. W., secretary, Seafood Dealers Association, Inc., Astoria, Oreg.

Humboldt Bay Fisheries Association, Eureka, Calif.

Humphrey, Gordon, agent, National Maritime Union, Port of Boston.

Iceland Boat Co., Inc., Seattle, Wash.

Jacobson, E. E., Seattle, Wash.

Jensen, Bjorn C., Seattle, Wash.

Jensen, Jens, Edmonds, Wash.

Johansen, Knute, Seattle, Wash.

Jones, Harold, Kodiak, Alaska.

Kindred, Jim, chairman, Chamber of Commerce Fisheries Committee, Astoria, Oreg.

McCauley, Jack, Eureka, Calif.

Mineo, Michael, president, Domestic Seafood Producers Association of New England, Gloucester, Mass.

Nickerson, Howard W., Seafood Dealers Association of New Bedford' Mass.

Northwest Fisheries Inc., Seattle, Wash.

O'Keef, Dick, executive secretary, Congress of American Fisherman, Seattle, Wash.

Orme, Jesse M., manager, Fisherman's Marketing Association of Washington, Seattle, Wash.

O'Rourke, Hugh F., executive secretary, Boston Fisheries Association, Cambridge, Mass.

Ostensen, Jacob, port agent, New Bedford Fisherman's Union, New Bedford, Mass.

Phebus, Fred L., secretary-manager, Fisherman's Marketing Association, Eureka, Calif.

Reinhardt, D. E., Halibut Producers Cooperative, Seattle, Wash.

Reinholdtsen, Arnold, Seattle, Wash.

Richardson, William, Seattle, Wash.

Riley, Edward, Boston port agent, Seafarers International Union of North America.

Riley, James, Arcata, Calif.

Sea Products, Inc., Seattle, Wash.

Skolfield, Emery, Kodiak, Alaska.

Strand, Harold, Eureka, Calif.

Tradewind Fishery, Inc., Kodiak, Alaska.

Wilson, Arthur, Eureka, Calif.

Young, Richard, Eureka, Calif.

HONEY IMPORTS*

90th CONGRESS
1st Session

S. 2217

IN THE SENATE OF THE UNITED STATES

August 2, 1967

Mr. McCarthy (for himself, Mr. Church, Mr. Hart, Mr. Nelson, and Mr. Hruska) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Tariff Schedules of the United States to increase the rate of duty on honey, and to impose quotas on the quantity of honey which may be imported into the United States.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) item 155.70 of the Tariff Schedules of the United States (19 U.S.C. 1202) is amended by striking out "1¢ per lb." and inserting in lieu thereof "3¢ per lb.".

(b) The amendment made by subsection (a) shall apply with respect to articles entered, or withdrawn from warehouse, for consumption on or after the date of the enactment of this Act.

II

*Communications received by the committee on this subject, pp. 176–178.

SEC. 2. (a) The total quantity of honey which may be imported into the United States in the calendar year 1968 or in any subsequent calendar year shall not exceed a quantity equal to the average annual quantity of honey imported into the United States during the years 1961 through 1964, increased or decreased by the same percentage that the estimated domestic consumption of honey during such calendar year is greater than or less than the average annual domestic consumption of honey during the calendar years 1961 through 1964. In determining the quantity of honey imported into the United States, and in determining the domestic consumption of honey, there shall be included the honey content of any article containing honey.

(b) The Secretary of Agriculture shall, before the beginning of the calendar year 1968 and each subsequent calendar year, determine, publish, and certify to the Secretary of the Treasury the total quantity prescribed by subsection (a) for such calendar year.

(c) The Secretary of Agriculture shall allocate the total quantity of honey which may be imported in any calendar year among supplying countries on the basis of the shares such countries supplied to the United States market during the five calendar years immediately preceding such calendar year, except that due account may be given to special factors which have affected or may affect the trade in such articles.

(d) The Secretary of Agriculture shall issue such regulations as he determines to be necessary to prevent circumvention of the purposes of this section. All determinations by the Secretary of Agriculture under this section shall be final.

(The following statement was submitted by Senator Harris a U.S. Senator from the State of Oklahoma:)

Statement of Clarence L. Benson, Chairman of the Legislative Committee, American Beekeeping Federation

I appreciate the privilege of presenting this statement relative to the importation of honey and the effect of such importation on the Agricultural economy of this country.

Although honey is a delicious food and beeswax is used as the primary ingredient of all the better cosmetics, it would probably not be too difficult to do without these two products. We cannot, however, do without the honey bees necessary function as a pollinator as one billion dollars worth of agricultural crops is completely dependent on their pollinating activity and six billion dollars worth of agricultural production is benefited by such activity.

Following is a list of crops that cannot be produced without bee pollination.

- Alfalfa
- Clovers:
  - Sweetclovers:
    - Annual: White
    - Annual: Yellow
    - Hubam
    - Sour
  - True clovers:
    - Alsike
    - Arrowleaf
    - Ball
    - Berseem
    - Crimson
    - Persian
    - Red
    - White, Ladino
    - Lespedeza (bush)
    - Trefoil
    - Vetch (hairy)
- Garlic
- Leek
- Onion
- Broccoli
- Brussels sprouts
- Cabbage
- Cauliflower
- Chinese cabbage
- Collard
- Kale
- Kohlrabi
- Mustard
- Radish
- Rape
- Rutabaga
- Turnip
- Cantaloup (muskmelon)
- Cucumber
- Citron
- Honeydew melon
- Persian melon
- Pumpkin
- Squash
- Watermelon
- Carrot
- Celeriac
- Celery
- Parsley
- Parsnip
- Asparagus
- Buckwheat
- Lotus
- Sunflower
- Fruits and nuts:
  - Almond
  - Apple
  - Apricot
  - Avocado
  - Blackberry
  - Blueberry
  - Cherry
  - Chestnut
  - Cranberry
  - Dewberry
  - Gooseberry
  - Grape
  - Huckleberry
  - Macadamia nut
  - Mandarin
  - Mango
  - Nectarine
  - Passion fruit
  - Peach
  - Pear
  - Persimmon, native
  - Plum
  - Prune
  - Raspberry
  - Strawberry

It is apparent that the elimination of the above mentioned crops would be unthinkable. The U.S. Department of Agriculture states that it is necessary to to maintain a large population of honey bees for pollination purposes. Their statistics show that for the past many years the number of colonies of bees has been declining. Honey prices have also declined. Imports of honey into the U.S. from areas of low cost production has been a contributing factor in this decline. We therefore urge the Committee to give every possible consideration to our request to increase the import duty on honey and to establish quotas.

STATEMENT OF R. B. WILLSON, PRESIDENT, R. B. WILLSON, INC., NEW YORK, N.Y.

As president of R. B. Willson, Inc. of New York, a company which is believed to be the largest exporter of American honey and the largest importer of honey in the United States, I am grateful for the privilege of filling my statement on S. 2217 with the Finance Committee of the United States Senate, and I request that my company's statement be made a part of the official record of the hearings on import quota legislation.

I have long been associated with the American Honey Industry, have twice been president of the National Honey Packers and Dealers Association, twice chairman of the Honey Industry Council of America and am currently and have been for about ten years chairman of our industry's research committee to which is entrusted the self-raised sums for our own private research.

S. 2217 by Senators McCarthy, Church, Hart and Nelson has two key features. It would raise the tariff on imported honey from its present one cent per pound to three cents per pound.

It also would establish import quotas on honey brought into the United States based on the years 1961 through 1964, and decreased or increased by the same percentage of consumption of honey during the years 1961 through 1964.

As the largest American exporter and importer of honey, it is our considered judgment that this legislation would be detrimental to our nation and harmful to the two friendly countries who export honey to the United States. In brief, this bill is aimed at Mexico and Argentina, the two foreign lands who export about 95 per cent of the honey that comes into the United States.

Let us examine the real situation regarding honey imports.

U.S.A. honey production for the years 1963 through 1966 averaged 280,000,000 pounds per year (all U.S. statistics quoted are U.S. Government published figures). Our exports during that period averaged 15,576,883 pounds per year. Our imports of honey during the same period averaged 7,600,000 pounds per year, 7,976,883 pounds less per year than our exports, and our average annual imports of honey are only 2.7% of our average annual production.

But suppose someone insists that this tiny percent of imports does depress prices at home. The honey from Mexico, our largest supplier of imported honey year in and year out, is used solely for industrial purposes in our country, most of it entering the United States along our Atlantic seaboard, lesser quantities through the Port of New Orleans, but all of it well removed from our major sources of honey production. None of it to the best of our knowledge is used for packing honey in jars that one finds on the shelves of our grocery stores and supermarkets.

But some honey producer may say it is not that industrial honey that bothers us—it's honey from Agrentina. Let us examine this argument.

Our average annual imports of table quality honey from Argentina for the 5-year period 1962 through 1966, according to U.S. Department of Agriculture published figures, was just about 2¼ million pounds, or less than 1% or our production of honey in the United States. This is a tiny percentage of honey. Surely this amount of imports cannot be considered a menace to the welfare of the American honey industry.

But suppose the argument is made that even though these quantities of imports are small they nevertheless have a depressing effect on our market and thus cause distress to U.S. honey producers. Let us therefore put this to still another test.

In this land of ours, honey, like the basic crops cotton, corn and wheat is under mandatory price support. Honey, a minor agricultural crop is supported to encourage the keeping of an abundance of honeybees that will insure the pollination of more than 100 important fruit and seed crops valued at one billion dollars annually by the U.S.D.A. in their publication, Beekeeping in the United States, Agriculture Handbook No. 335. Wherever a greater concentration of bees is needed over what is normally present in the United States, there are beekeepers eager to move their bees into the orchard, or melon farms, or alfalfa fields—for a fee—and thus add to their incomes from their bee colonies. There is no shortage of bees for pollination in the United States today.

And government price support levels are now and for several years have been above world market price levels. And like cotton, corn and wheat, honey is a world commodity.

Were there distressed honey about our country, were there large quantities of honey for which there was no market at good prices, our producers would have no major worry, because all they would have to do is turn that honey over to the federal government at support prices. But is there in fact a large quantity of honey being turned over to the federal government? We have a letter from the United States Department of Agriculture dated July 26, 1967, giving the quantities of honey taken in by our government through the crop years 1962/1965. They average 1,319,000 lbs. or less than ½ of 1% of our national production. Once again we are dealing with trivial quantities of honey that cannot conceivably be the cause of any possible distress to the American honey producer.

A final aspect of this proposed legislation that needs examination is what would its effect be on our international relations? As pointed out, this means Mexico and Argentina—two friendly neighbors in Latin America.

This request for an unprecedented quota comes when we are in the era of the Kennedy Round in international negotiations for trade. This is the era of breaking down trade barriers, not putting them up higher than ever before.

In Yucatan from whence comes most of our Mexican imports, honey production twenty years ago was a mere 300,000 pounds. Today the nectar rich jungles of that land are yielding 30,000,000 pounds. The gathering of this great natural product has been accomplished by the Yucatan people 100% with their own resources, with not one cent of Point IV or Alliance for Progress aid. For the first time in their existence the poor and almost penniless rural people of Yucatan have a cash crop, because when they sell their honey they sell for cash only.

Are we going to shut the door on these people—our next door neighbors who have with their own intelligence and industriousness turned this natural resource of their jungles into so much self-help—so much improved living?

Mexico has little to export to us except her agricultural products. According to the *Statistical Abstract* issued by the United States Department of Commerce United States exports to Mexico in th last three-year period (1964–1965–1966) averaged $1,125,000,000 per year. United States imports from Mexico, on the other hand, averaged during the same preiod, 677 million dollars per year, leaving a balance of trade in favor of the United States of 448 million dollars per year.

Even more striking is the picture with Argentina. Our trade with that country is only about one quarter what it is with Mexico, but the balance of trade for seven years 1960 through 1966 totaled over $1,250,000,000 in our favor. And here also the Argentines can ship practically 100% agricultural products only such as meat, skins, fruits and honey.

Should we not ask ourselves, is it proper, is it considerate, is it fair to place a quota on these honey imports that do not really hurt us, especially with countries like Mexico and Argentina with whom we enjoy over a half-billion dollars a year balance of trade in our favor?

The answer to this question is self-evident. There is no distressed situation with the honey producers in the United States and our friendly neighbors from whom we buy and import small quantities of honey but with whom we enjoy a highly profitable balance of trade, need our encouragement, not penalising quota legislation.

I respectfully request that the commodity honey be eliminated from consideration in the matter of restrictive quotas and that the tariff on honey not be increased, and that S. 2217 not be approved by this Committee.

The CHAIRMAN. Now that concludes the committee's session for today. We will meet again at 10 a.m., tomorrow, to take testimony on oil, orderly marketing, and lead and zinc.

(Whereupon, at 3:30 p.m., the hearing was recessed, to reconvene at 10 a.m., Thursday, October 19, 1967.)

(Following are communications received by the committee expressing views on import quota legislation for various agricultural commodities:)

COMMUNICATIONS RECEIVED BY THE COMMITTEE EXPRESSING AN INTEREST IN IMPORT QUOTAS LEGISLATION ON VARIOUS AGRICULTURAL COMMODITIES

U.S. SENATE,
COMMITTEE ON INTERIOR AND INSULAR AFFAIRS,
Washington. D.C.

Hon. RUSSELL B. LONG,
Chairman, Senate Finance Committee,
New Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: Import control legislation, the subject of hearings your Committee is now holding, is of vital concern in many parts of our economy.

I know you want to close the record soon and get on with the important business of introducing legislation. Therefore, I won't comment on all the import legislation I am co-sponsoring, but I would like to say a few words about agricultural imports, which are of special concern to my state.

Early in the session, Senator Proxmire introduced S. 612, to curtail dairy imports. We all pointed, at that time, to the tremendous increase in these imports the past few years. Of course, everyone was happy when the President, under authority of Section 22 of the Agricultural Adjustment Act, moved during the summer to cut down these imports.

But the real problem still remains: Section 22 itself. The specifications on incoming dairy commodities under this law have been revised and refined, but the resourcefulness of foreign producers has enabled them to find new loopholes. For example, when action was taken to bar articles containing 45% or more of butterfat, almost at once a 44% mixture started to flood the country from overseas.

Added to these loopholes in the law itself is the fact that many of these foreign roduct· receive an export subsidy which enables them to be sold on the world market far cheaper than they can be sold in the country where they are produced. Thus, American farmers are competing against artificially low prices.

The only answer I can see for a lasting solution is prompt enactment of S. 612.

Mr. Chairman, in 1964 we passed P.L. 88–482 to cut down the volume of foreign beef coming into this country. That law, which represented a compromise and was much less than some of us wanted, has now shown itself to be completely ineffective.

The 1964 law set up a system for determining a base quota, and a "trigger point," beyond which further imports would be curtailed. That this law has never worked is shown by the fact that no quotas have ever been imposed under it.

What is wrong? For one thing, the 10 per cent "over-run" between the base quota and the "trigger point" should be gotten rid of, so the quotas can be immediately invoked. The base quota is probably too high to begin with, and the provisions requiring the Secretary of Agriculture to make estimates for the coming year ought to be changed. Any agricultural estimate is very risky, as we are finding out; and some other method has to be found.

As you know, most of these meat import revisions have already passed the Senate once, as an amendment to the Investment Tax Credit bill. The margin of that vote showed a widely-felt need for revision of the law. I'm convinced that now is the time for the revisions to be written on the statute books.

Mr. Chairman, there is not a large number of mink farmers in Idaho, but I believe I must have either heard from or talked to every one of them. They all told me that imported mink pelts are ruining their mink business.

The mink industry is, of course, highly dependent on changing fashions and general economic factors. Anyone entering this business on a full-time basis faces risks that overshadow those producing foodstuffs. People must eat; they do not have to buy mink coats.

So the mink industry is vitally concerned about the current flood of imports from the Scandinavian countries. I am told that the import of mink pelts duty-free has risen over 50 per cent over the past five years. Many of these pelts are selling at prices less than American cost of production.

The proposal before the Senate would allow mink pelts to come in duty-free until the total is equal to 40 per cent of our domestic consumption. This is a fair proposal, and is deserving of support.

I appreciate this opportunity to comment on some of the problems being raised by unrestricted agricultural imports in my state, and what might be done. But these are not the only problems. I understand that lead, zinc, honey, and textile import legislation may also be included in the bill to be introduced next week. In the interest of brevity, I have not commented on these import problems, but that does not lessen in any way my support for quota legislation affecting them.

I commend you and your committee for prompt action on these vital problems, Mr. Chairman.

With best personal regards.

Sincerely,

FRANK CHURCH.

STATEMENT BY HON. JACK MILLER, A U.S. SENATOR FROM THE STATE OF IOWA

Mr. Chairman and members of the committee, this statement is being filed in support of several bills before the committee of which I am a co-sponsor. All have a common purpose, namely: to prevent foreign exporters from taking unfair advantage of the liberalized trade policy of the United States.

Our national policy on trade became crystalized with the passage of the Trade Expansion Act of 1962. The Congress determined that the economic growth of our nation would be assisted by the reciprocal lowering of trade barriers with our trading partners in the General Agreement on Tariffs and Trade. There was no intention that this lowering of trade barriers be a one-way street. Nor was there any intention that the economic principles involved in the free trade concept be permitted to be vitiated by non-trade barriers or dumping practices of trading partners paying only lip service to a policy of liberalized trade.

The position of our negotiating team during the recently-completed Kennedy Round of Negotiations was not one of seeking to acquire an unfair share of the increased domestic market of our trading partners. This was made clear, for example, with our request that the Common Market countries assure us of a guaranteed access for our grains on a percentage determined according to a representative base period. This percentage would remain fixed, but as the economy and population of these countries grew, the volume of our grain exports within this fixed percentage would also grow. At no time did we suggest that imports from the United States take over a larger share of a country's increased domestic consumption, much less take over all of it. Unfortunately the Common Market rejected our proposal.

The point to be made, however, is that the bills of which I am a co-sponsor take the same approach as the one our negotiators took with respect to the Common Market. Contrary to some reckless and superficial statements which have appeared in the press, these bills very clearly call for a continuation of foreign imports, and in very substantial amounts. They have nothing in common whatsoever with the uneconomic protectionist position of the Smoot-Hawley Tariff Act of 1930. But they do make it clear that, as our domestic consumption for various commodities increases, our trading partners cannot abuse our liberalized trade policy by taking over an unfair share, or all, of this increased domestic consumption.

Most people are persuaded that liberalized trade holds the key to future economic growth and better relations of all countries of the world. Overreaching and abuse by some foreign exporters should not be permitted to destroy this opportunity. Favorable action on these bills will prevent this from happening.

STATEMENT OF SENATOR GEORGE McGOVERN

AGRICULTURAL COMMODITY IMPORT QUOTAS ARE JUSTIFIED AND NECESSARY

Mr. Chairman, and members of the Senate Finance Committee, for a good many years members of the international community have understood that the United States, with the capacity to produce agricultural commodities far in excess of its own requirements, has an agricultural price support problem.

They are officially aware of this because tariff laws provide for the modification of import conditions whenever imports threaten the success of an agricultural price policy. We have on some occasions, through existing machinery, imposed quotas on agricultural commodities which are under price supports in this country, negotiated import limitations or quotas for commodities not protected by formal price support programs, and enacted legislation such as the meat import limitation law of 1965, which I co-sponsored, for the protection of farm commodities not protected by formal support programs.

U.S. agriculture is in a period of great distress. Farm prices are lower than they were in 1947—twenty years ago. Farm costs have risen more than one-third since 1947. Farming enterprises are disappearing at the rate of about 100 thousand a year, with a very serious effect on our whole social structure, threatening the existence of many of our rural communities, and aggravating the problems of major cities to which displaced rural people have been flocking in recent years.

Because of international understanding of our farm price policies, most nations recognize the necessity of our protecting an agricultural plant which controls its production and thereby benefits other nations as well as its own producers. I therefore recommend to this Committee that it report favorably to the Senate measures to achieve: (1) a tightening of meat import restrictions, (2) mandatory dairy import restrictions which will make evasion impossible by modification of the nature of the product, (3) a limitation on honey imports, or an increase in the tariff rate that will protect the price support program at a profitable level for domestic producers, and (4) a limitation on the importation of mink skins to not more than forty percent of our domestic use.

Meat imports

On April 19, 1967, I introduced an amendment to the Investment Tax Credit bill to tighten our meat import law which was approved by the Senate by a 55 to 19 vote after considerable debate. It reflected clearly a sizeable Senate majority for such action. The amendment sought to achieve objectives identical to those proposed in the bill subsequently introduced by Senator Roman Hruska of Nebraska, myself, and others, S. 1588, with one or two exceptions. Senator Hruska has discussed the bill with this Committee in detail, so I shall not repeat the data and facts he presented.

My amendment proposed a mandatory limitation on lamb imports rather than leaving such restriction to administrative discretion. Lamb imports have risen steeply and a limitation is in order using the same base period as for other meat imports, plus a share of our growth in use. I think such a provision should be added to the Hruska bill. I also feel that a limitation on canned and other processed meats should be written into legislation rather than leaving it to the discretion of administrative officials. There are indications that imports of such canned and processed meats and meat products may be used to escape limitations on specified types of meat, just as Colby cheese, sugar-butterfat mixes and other new products have been used in the past to escape limitations on familiar types of dairy products.

My views on beef imports, and those of other Senators, can be found at considerably greater length in the Congressional Record of April 19, 1967, on pages S-5513 and S-5530, where the debate on my amendment to the Investment Credit Tax bill is recorded.

Dairy imports

Because administrative limitations on dairy imports, imposed to protect our dairy price support programs have been avoided in the past by the production of commodities and mixes not specifically covered by current regulations, I feel it is very important to enact a mandatory overall dairy import limitation stated in terms of total milk equivalent. I testified in favor of S. 612, which is sponsored by a majority of members of the Senate, on May sixteenth. My statement appears on pages 16 through 20 of the Senate Agriculture Committee's published hearings on the Dairy Import Act of 1967. I would like to make that statement on the dairy import problem on that occasion a part of the record of this hearing and am attaching a copy of the hearings cited, containing my statement and many others.

Honey imports

Producers of honey in the United States are in an extremely serious cost-price squeeze. They render a service to agriculture beyond the production of a desirable commodity. Bees are an important pollinating agent. In the absence of bees many crops would be very seriously affected. Producers of a number of cro psare alread. finding it necessary to arrange for commercial honey producers to locate hives in their fields during pollinating periods. The honey industry is consequently essential to us for more than the product it markets.

Because of the importance of this industry, we have a price support program. The current price support level is inadequate, and should be increased. Nevertheless, the success of the program is seriously threatened by imports. This spring when our price support was 13.4 cents per pound on No. 1 honey at the production point the Commodity Credit Corporation had to take over several million pounds because imported honey was being offered for 12½ cents per pound, duty free, f.o.b. Chicago. This was 1½ cents more above the delivered, price support level at Chicago.

In pursuance of our policy of using import limitations to protect price support operations, import limitations could have been imposed administratively on honey sometime ago, but they have not been. When and if honey price support levels are increased to a level just to producers, the need for import limitations will, of course, be intensified. While some spokesmen for the honey industry advocate an increase in the tariff rate, limitations based on a proper share of the market for imports seem to me to be much more advisable. If there is an adjustment of the price support to an adequate level, any tariff rate based on the current situation might prove inadequate and rate is not so important as the total volume of imports.

Mink skin imports

The domestic mink industry is seriously threatened by rising imports. A large proportion of domestic producers are going to be forced out of production if present ruinous prices for skins continue. A limitation on total imports to 40 percent of domestic use as proposed in H.R. 6694, attached, by Mr. Burke of Massachusetts, is the best solution I have seen that has been proposed to meet this problem.

Demand for mink fluctuates rather capriciously, both with our economic level and fashions. The allocation of a maximum share of the market to imports would give more certain protection to our producers than an adjustment in the tariff rate, which would not fluctuate with demand. Your Committee might very well consider modifying the Burke bill to eliminate the high tariff rate on skins over 40 percent of requirements and making the percentage of demand limitation absolute.

World trade

It is my hope that the Committee will recommend a series of amendments to an appropriate bill or bills permitting the Senate to consider changes in trade conditions on ther merits of the case for individual commodities.

Restrictions on international trade should be imposed sparingly and with great care only when clearly justified.

There is a great international effort to minimize trade barriers which the United States should support to the extent possible. It is not possible to eliminate barriers entirely in one step. Other nations are not prepared to do so. The international community, by mutual agreement, is moving gradually toward that goal to minimize economic disruptions in the countries involved. We are not expected to let down all our trade barriers. Most of the United States' agricultural trade problems stem from restrictions still maintained abroad. The rise in meat imports into the United States in 1962 and 1963 was in a large measure the consequence of restrictions on meat imports in other countries which made the United States—already surfeited with meat and other food surpluses—the only open market for the supplies of the producing nations. Similarly, other agricultural commodities which we have or can produce in great abundance have been exported to the United States, not because this Nation had any real need for them, but because of barriers to them in other countries which had much greater need for food.

It does not make good sense in a world surfeited with hunger for agricultural commodities to be shipped to the one nation in the world struggling with a persistent problem of agricultural surpluses and surplus production capacity. Circumstances, including the trade barriers of other nations and the lack of ready cash in the countries of greatest need, may at times make the United States the most profitable outlet. In some instances the circumstance responsible for this is our price support program. But it will not destroy any of the food exporting nations of the world to forego an excessive share of the American market, and, if it is necessary to dispose of their exportable surpluses, to assume a larger share of the responsibility for providing foodstuffs to needy countries on concessional terms as the United States has been doing for a number of years.

Unlike many other commodities with which your Committee will be dealing, food is essential to human life. It is therefore justifiable for countries to adopt policies, including the sort of import limitations I advocate, to bring about a more logical and humane distribution of this essential need to human life than would otherwise occur.

(Senator McGovern's testimony before the Senate Committee on Agriculture follows:)

Statement of Hon. George McGovern, a U.S. Senator From the State of South Dakota, on the Dairy Import Act of 1967—S. 612

Mr. Chairman and Members of the Subcommittee, I can subscribe fully to the many fine statements that are being made by some of my colleagues and other witnesses before this subcommittee in support of S. 612. They have or will discuss in detail the economic effects of the large volume of dairy product imports on dairy products prices and upon prices received by dairy farmers in the United States for the milk and butterfat they produce. I shall not repeat such data. However, several witnesses have mentioned matters which I think it would be desirable to discuss in greater detail.

There have been comments about the ineffectiveness of application of Section 22 of the Agricultural Adjustment Act, and the great amount of circumvention of the quotas once they were applied.

The ineffectiveness of the application of Section 22 since its enactment may be classified readily into two major categories.

The first category is related to the failure to apply the quotas to dairy products of what might be called standard or normal types. These would include such products as butter, cheddar cheese, Italian cheese, Colby cheese, and the like. Witnesses have shown that Colby cheese, a standard type which we produce in this country, was not placed under quota when quotas were established under Section 22 in 1953, presumably because no cheese imports then were classified as Colby cheese.

Foreign countries became aware that there was no import quota on Colby cheese, and started exporting such cheese to us in ever-increasing amounts. This cheese is closely comparable and competes directly with cheddar cheese produced in this country so representatives of dairy farmers requested the Secretary of Agriculture to get Colby cheese under quotas pursuant to Section 22.

No such action was taken. The Secretary of Agriculture did try to place some restraints upon the imports of Colby cheese by negotiating agreements with New Zealand and Australian governments and later with Ireland, Those countries agreed to hold down the volume of Colby cheese they exported to the United States. However, other countries started exporting Colby cheese to the United States and the inter-government agreements with New Zealand, Australia, and Ireland became inoperative. In spite of many formal requests for quotas on Colby cheese under Section 22, action was only very recently instituted and is currently the subject of a hearing before the Tariff Commission.

The point here is that no positive action to invoke the authority granted the Secretary and the President by Section 22 was taken during the several years that Colby cheese imports were increasing from zero to about 46.0 million pounds in 1966, negating the value of the cheddar cheese quota. This is an outstanding example of failure to take action to control the imports of a normal or standard dairy product even though such controls clearly were justified.

The second type of ineffective use of Section 22 pertains to new types of dairy commodities developed solely to circumvent established quotas. Witnesses have pointed out that the butter quota was circumvented by the shipment of butteroil. When butteroil was placed under the quota, the butteroil quota was circumvented by shipping in a flavored commodity called Exylone. When import of this commodity was stopped by placing a zero quota upon its importation, the regulation applied to commodities containing 45 percent or more butterfat. This restriction was immediately circumvented by making a mixture containing 44 percent butterfat and adding sugar and nonfat milk solids, thus again escaping the quota and entering this country without restriction. Prior to their development to circumvent our quotas, such products were not standard items of the dairy trade in any foreign country or in international commerce.

Again representatives of dairy farmers urged the Secretary to invoke Section 22 to control the importation of these new dairy commodities, but there has been no action until recently.

I am advised that the imports of this butterfat mixture alone, which is used primarily in the production of ice cream, have captured more than 12 percent of the total market for milk and butterfat from U.S. dairy farms normally used in the production of ice cream and frozen desserts.

Failure to apply the provisions of Section 22 effectively in the dairy situation represents a serious failure, resulting in the present necessity for Congress to step in.

In 1966, the emergency authority contained in Section 22 was used to increase cheddar cheese import quotas by Presidential Proclamation by 926,700 pounds for the fiscal year ending June 30, 1966. This same emergency authority could be used to restrict imports of Colby cheese and butterfat-sugar mixtures, but it has not. Further, it is to be noted that in 1966 when the President directed the Tariff Commission to hold a hearing to consider the cheddar cheese quota, there was no reference to placing a quota upon the vastly greater imports of Colby cheese.

But the most disturbing thing about the actions noted above was that they were undertaken in order to reduce cheese prices in the United States.

In a press release (USDA 987-66) on March 31, 1966, the Secretary stated:

"The actions are in response to the decline in U.S. milk production that has taken place in recent months and the rise in prices of cheese. They will help alleviate an imbalance in manufacturing milk supplies which has developed as cheese and butter manufacturers compete for existing supplies of manufacturing milk. Strong demand for cheese is diverting milk from butter production. Many small creameries face disaster from the cost-price squeeze that results. The increase in butter prices that results threatens to diminish the market for butter—an action which in the long run will injure dairy farmers who produce mainly for butter production."

Furthermore, in his letter to the President dated March 31, 1966 in which he recommended hearings before the Tariff Commission to increase cheddar cheese quotas, he stated that:

"Cheddar cheese prices have been maintained at a relatively high level over the past year and have continued to rise in recent weeks. Furthermore, the current tight situation with respect to cheddar cheese production is expected to continue for some time."

He further recommended in this letter as follows:

"I believe that a condition exists which requires emergency treatment and that in order to moderate the possible further increases in cheddar cheese prices, you should take immediate action to increase the cheddar cheese quota for the current quota year ending June 30, 1966, by 926,700 pounds without awaiting the formal review and recommendations of the Tariff Commission, in accordance with the provisions of Section 22(b) of the Agricultural Adjustment Act, as amended."

I am unable to find any explicit authority in Section 22 authorizing the expansion of quotas under this section *for the purpose of holding down prices in this country*. While the authority may be implicit in Section 22, I think we can all agree that such authority, if it may be presumed to exist, would be exercised contrary to the policy of the Congress and the goal of our agricultural legislation unless prices to U.S. farmers were at parity levels, and gave promise of remaining at or above parity levels.

It was for these reasons, among others, that I and others introduced Senate Concurrent Resolution 88 which was passed in the Senate without any dissent. Passage of this resolution undoubtedly was one reason that the Tariff Commission refrained from recommending a permanent increase in the cheddar cheese quota after hearings in April 1966.

It is clear that the enactment of S. 612 is necessary to have effective controls on imports of dairy products that are related to the achievement of our over-all goal of parity prices for U.S. farmers, including dairy farmers.

In considering this bill we should be aware of the importance of dairy business to our economy. Dairying is a large segment of agriculture, and makes a substantial contribution to farm income and to employment throughout the 50 states. Furthermore, milk and dairy products make up a large portion of the consumer diet, and are essential for good nutrition.

The need for stable dairy industry, with respect to farm prices and levels of production, has long been recognized by Congress. Milk is among the few select commodities subject to mandatory price supports.

Section 22 of the Agricultural Adjustment Act came into being because it was realized efforts to enhance farm income through government programs would be thwarted if imports were allowed to enter the United States market on an unrestricted basis.

Prior to the great depression of the 1930's, there was little movement of dairy products in or out of the United States. Price differences, as between the United States and other dairy producing countries, were reconciled by use of modest tariffs on such products as butter or cheddar cheese.

The Tariff Act of 1930 established a duty on butter at the rate of 14 cents per pound, and comparable rates on other dairy products. The tariff rates, however, were soon to be reduced with the passage of the Reciprocal Trade Agreements Act. These reductions in tariff rates occurred at the same time the price disparity between the United States and other dairy producing countries were becoming wider. The wider disparity, at least in part, resulted from the agricultural programs passed by the Congress in an effort to bolster prices and income to U.S. farmers.

Limitations on the quantities of dairy products imported first occurred in 1942 under the Second War Powers Act. These limitations were intended to keep fats needed in war-torn Europe from being drawn to the higher priced American market, and to aid in carrying out an international allocation of dairy products. Later, in the 1949-51 period, imports of butter were controlled under special legislation to facilitate the orderly liquidation of stocks acquired under the price support programs. Then, in 1951 Congress authorized import quotas on dairy products under Section 104 of the Defense Production Act. The purpose of this legislation was to prevent excessive imports from resulting in unnecessary government expenditures to support the farm price of milk and butterfat in the United States. These controls were maintained until 1953.

Quotas, intended to limit the entry of dairy products, were established July 1, 1953, by Presidential Proclamation 3019 under the authority of Section 22 of the Agricultural Adjustment Act.

The purpose of quotas is to regulate the flow of imports and minimize their effect on the farm price of milk. The farm price of milk reflects values of milk and dairy products in any form. A pound of butterfat used in the production of butter oil, cheddar cheese, ice cream, or even fluid milk. The same is true of each pound of nonfat milk solids.

The import quotas established pursuant to Section 22, though, were made applicable, not in terms of butterfat and nonfat milk solids, but rather in terms of specifically defined dairy products then being traded between the nations of the world. Import quotas were established for such well-known products as butter, cheddar cheese, and the like.

The pressure of exporting producers and of importers to enlarge quotas is understandable from their points of view, particularly when there is no overall limit on imports by statute and no standards governing the level of such imports provided by law.

As a result of these pressures, perhaps, it was easier, administratively, to grant a new quota for butter oil in 1957, for example, rather than to deny one, or to provide one by reducing quotas for other products. In like measure, it was perhaps easier, administratively, in 1966 to grant an additional quota for cheddar cheese from Canada, rather than do so by reducing quotas for other countries or for other products. Each such increase in quotas added supplies to our market and thus adversely affected the U.S. farm price for milk. Thus each increase was contrary to the intent of law, which has, as its basic aim, parity prices for U.S. farmers.

The import quotas established in 1953 displaced a market for 189.0 million pounds of milk for U.S. farmers. The present quota displaces a market for 282.7 million pounds annually.

The gradual enlargement of import quotas is an invalid exercise of powers and is clearly inconsistent with the intent of Congress. Permitting unrestricted imports in contravention of the quotas, however, is unconsionable. The amount of imports, due largely to circumvention of the existing import quotas, in 1966 was more than 9 times the volume authorized by quotas. Unless new legislation is passed, the imports, due largely to contravention of quotas likely will amount to some 12 to 15 times the volume specified in the quota regulations this year. These imports clearly are not intended by the law or by the quotas established under Section 22. That they should be allowed to continue and to grow, and to be made permanent through the establishment of additional quotas, is most difficult to understand, such as was the case in butter oil.

The provisions of S. 612 are designed to bring order out of this chaos and to establish limits so that there can be no further erosion of the U.S. farm price for milk through the enlargement of quotas, or their circumvention.

The legislation would establish an overall limit of imports based upon the average annual quantities of butterfat and nonfat milk solids imported in all forms, and from all foreign countries, during the five calendar years 1961 through 1965. The year 1960 would be excluded from the base because the level of imports in contravention of existing quotas was not normal by any stretch of the imagination.

Heavily subsidized exports of surplus production from other countries reached our shores in 1966 in a volume which was sufficient to recreate an excess of dairy products above market requirements within the United States, and to cause our farm price to tumble. Farm prices now are hovering around the minimum levels established under the price support program, and there is little likelihood that the U.S. farm price for milk can be improved unless imports are controlled by act of Congress. The only other alternative would be further liquidation of dairy farmers and dairy herds in the U.S.

In establishing a total level of imports reflecting the 1961–65 base period, it would be left for administrative decision to apportion such imports as between products and countries of origin. This type of legislation would permit the orderly adjustment of imports without their adversely affecting prices to U.S. farmers.

There is a provision in the bill for an increase or decrease in the total amount of imports. In this regard, the foreign producers would share the American market with domestic producers. and changes upward or downward would be in the same ratio.

There is a provision in the bill which would permit the President to authorize imports beyond the established overall limitation, if he deemed such action to be necessary in the national interest. At such time as additional imports were asmitted under this provision, however, and if U.S. farm prices were below parity, a corresponding quantity of butterfat and solids-not-fat would be removed from the market, thus insulating the price system from being adversely affected. This provision would permit the market to respond to domestic market forces and to achieve the goal of the agricultural programs authorized by Congress.

Under this type of legislation dairy farmers reasonably could expect to achieve parity prices without interference by the surplus milk production of other countries. Most important, the bill would put an end to subterfuge, to evasion of quotas established by law, and it would bring order out of the present chaos plaguing the dairy industry.

In my view, passage of S. 612 would be a forward step. Dairy farmers would know the extent to which imports might affect their market. Consumers would benefit in that they would have assurance of a stable dairy industry and a supply of milk and dairy products at reasonable prices for their long-term needs. Exporting countries also would benefit in that they would know the total quantity of products which they could aspire to sell in the United States.

S. 612 provides a solution of the current import problem facing the dairy industry. It is fair to all parties affected. It is consistent with the expressions of Congress regarding farm policy and foreign trade policy. It would regulate imports of dairy products in a manner intended by Congress when Section 22 of the Agricultural Adjustment Act was originally developed and coordinated with the Reciprocal Trade Agreements Act.

I urge the subcommittee to recommend the favorable reporting of S. 612 by the Senate Committee on Agriculture and Forestry. The measure should be reported regardless of what may be done under the current Section 22 proceedings before the Tariff Commission to end the uncertainties and misdirected decisions which result from administrative actions taken in face of surges of pressure.

Statement of Hon. Karl E. Mundt, a U.S. Senator From the State of South Dakota

Mr. Chairman, I want to thank you for the opportunity afforded to me and other members of the Congress to submit statements in behalf of the many proposals which are pending in the Senate to impose import quotas on specified commodities. I have joined in the co-sponsorship of several specific bills to impose import quotas on specific commodities, and I am pleased that this Committee is taking testimony and giving consideration to the serious economic effect on United States industries which the ever-increasing inflex of imports is having on markets cultivated and expanded by our own producers.

As you know, I come from a state—South Dakota—that is basically agriculture. Over the years we have been the victims on more than one occasion of a sharp drop in the prices of the products which our farmers produce caused by competitive imports. You are all familiar with the debate which took place on the Senate floor just this spring on an amendment to curb the imports of meat and meat products. The result of that debate was the introduction of legislation which is pending in your Committee which would provide for the imposition of quotas so that our livestock producers will not continue to see their markets displaced by foreign produced meats or meat products.

There is also legislation pending before another Committee of the Senate—The Agriculture Committee—which provides for the imposing of quotas on imports of dairy products. Early in 1967 the sharp increase in dairy products had such a disastrous effect on our own dairy prices that on June 30 of this year the President under the authorities of the Agriculture Adjustment Act imposed quotas on certain dairy products.

Additional legislation is also pending which would impose quotas on mink pelt imports and honey imports. All of these are important segments of our agriculture economy and all of them are, as you well know, operating in a depressed price economy today.

I do not want to dwell on the language of any specific bill nor will I infringe on your time by reciting statistics on the amount of imports now coming into this country affecting our agriculture economy. I know that those have been presented to you. I do want to urge you to give your most serious consideration to those measures pending and to the suggestions or ideas which they incorporate so that you can in your deliberations on writing a comprehensive bill for consideration by the Senate include provision for encouraging the development of our agriculture industry.

Farmers have been doing a tremendous job over the past several years even in the face of declining prices and a rising cost of operation. However, their parity stands today at 73%. Further, the prices which they must pay for the items they use on their farms have steadily increased over the years. We are also confronted by the fact that every year thousands of small farmers are being forced out of business because of the cost-price squeeze which confronts them. The basic strength of our agriculture economy has always been the family farm, and I am hopeful that the Congress will continue to support programs which will permit the family farm to continue to grow and maintain its position as the backbone of American agriculture.

The Congress has through the years taken action which was necessary to improve the competitive condition of our economy. It has been the help-mate in achieving labor standards which are fair and just. Because of such actions as these in upgrading our working conditions, we have built into our competitive selling position price increases which are to the disadvantage of our industries in competition with those of foreign countries. Because of these disadvantages which have accrued to our industries including agriculture—which resulted from our technological and human advances and our efficiencies—I am convinced that variable quotas are justified, fair, feasible, competitive and, above all, that they are in our national interest.

Speaking for agriculture, I am proud to say that we are not asking for the entire American market. We are asking that for various products, quotas be imposed as to the amount which can be imported each year and that these qotas be at a level which will not undermine our own price structures to the economic disadvantage of our own producers. The quotas which have been discussed are I believe generous and fair. They do provide, however, that in no instance should imports comprise more than a percentage of our domestic consumption totals. I believe it is time to impose these quotas by law since decisions by a department are too slow in being made to be effective and the proceedings under the rules of operations of the Tariff Commission are too cumbersome and do not provide the relief needed when it is needed. If the quotas are established by law, then our producers know how much of the market they can expect for their products and so will our foreign friends and all can plan their production schedules accordingly.

Therefore, I urge that the Senate Finance Committee give its most careful consideration to all of the various proposals before it for the imposition of quotas on meat and meat products, dairy products and mink pelts as well as honey. I also support the imposition of quotas on imports of any products where that industry is losing their market to a foreign producer and where such imports are effecting the opportunities for expansion of our industries to create more and better job opportunities for the American working man. This is a complex economy in which we live today. It is a thriving economy which through its technological advances has proven that it is unmatched anywhere. Let us keep our economy moving forward with the viable strength and growth needed so as to lead our friends in other lands into ever new horizons of improved living standards and increased opportunities for them at home and here as we continue to meet the challenges that confront us as a world leader today.

Statement by Senator Milton R. Young of North Dakota

Mr. Chairman, I am greatly pleased that the Senate Finance Committee is conducting hearings into the problems being created for key segments of the American economy by excessive imports. I know that the investigations of the Committee will show that a serious threat to the strength and well-being of key domestic industries does exist unless prompt action is taken to establish effective and realistic limitations on imports. More important, when these hearings have been completed, the evidence presented will prove to observers that producers and manufacturers in major American industries have already suffered substantial damage.

I would like to devote my comments today to the problems faced by several of America's key agricultural businesses—the dairy industry, the meat industry and the ranch mink industry. Producers in these vital segments of American agriculture have been faced with the competition of foreign produced products for years. In the cases of dairy and meat products, the federal government has recognized the problem and has taken tentative steps to meet it. Unfortunately, the action taken to date, either by legislation or administratively has been either insufficient or ineffective.

As a result of the tremendous threat to the American meat industry at the time, Congress enacted Public Law 88-482 in 1964. The livestock industry and many of us in Congress were dissatisfied with its provisions at that time and felt that it should be strengthened. Unfortunately, it was then impossible to obtain the adoption of the more rigid restrictions.

Under the leadership of the distinguished Senator from Nebraska, Mr. Hruska, many of us have sponsored legislation which would amend the current meat import control law. These amendments, if adopted, would eliminate the most glaring inadequacies of this legislation and would foster the continued growth and advancement of the livestock industry.

The amendments proposed by S. 1588 would tighten the present import quotas and place them on a realistic basis. They would also eliminate the necessity of waiting until the horse—in this case it would be more appropriate to say the cow—has been stolen before shutting the door.

As you know, present law permits imports to exceed established quotas by 10 percent before restrictions become effective. Our proposal would eliminate this overrun and would also permit the Secretary of Agriculture to act immediately to stem the rising tide of imports rather than waiting two to three months before acting to provide the relief needed by our domestic industry.

Another key amendment contained in S. 1588 would provide authority to extend quota limits to other types of meat and meat products. This would eliminate the possibility of imports being expanded by shipping in products not covered by quotas. I will comment a little later on the damage action such as this has created for the American dairy industry.

Another area of American agriculture which has suffered almost irreparable damage because of imports is the dairy industry. Here too, legislation in the form of S. 612 has been introduced in an effort to stem imports and not only protect, but to preserve this highly vital enterprise.

It was gratifying that, on June 30, 1967, the President issued a Proclamation imposing import restrictions on certain dairy products. This has had the effect of reducing excessive and unnecessary imports, but I feel that most knowledgable people will agree that this is only a temporary reduction.

This Proclamation, as have previous Presidential Proclamations issued under Sec. 22 of the Agricultural Adjustment Act, imposes restrictions on the import of certain defined commodities. The ineffectiveness of this procedure can be seen by the fact that excessive imports have been a recurring problem for the dairy industry. The limitations can be avoided simply by adjusting the composition of a product so as to avoid being placed under the definition of one of the restricted products.

The proposal put forth in S. 612 is simple, straight forward, and would clearly outline the limitations on the import of dairy commodities. I sincerely hope that the Committee will see fit to include the provisions of this legislation in any bill that is drafted as a result of these hearings.

There is one other commodity that I want to mention. The American mink rancher today is faced with virtual extinction because of the competition of foreign pelts. This industry provides a livelihood for countless numbers of Americans and, though not as large as the meat or dairy industry, it is a key segment of the agricultural economy. I would urge as strongly as possible that the problems of this industry be thoroughtly explored and that prompt, effective action be taken to halt the economic erosion taking place within it because of imports.

I realize these hearings will go into the problems being created for a good many American industries by ever-expanding imports. I will not, however, comment on the problems of the others since I feel that the case for these has been or will be made in such a complete manner that there is little I would be able to add.

The proposals for limiting imports of various commodities that have been put before this Committee will be attacked as excessive interference with trade, as unnecessary protection for domestic industry, and contrary to the nation's best interests.

I submit, that the limitations sought in the legislation I have mentioned does not seek to totally bar imports. It would permit foreign producers to share in the American market—it would even allow them to share in the growth of that market.

It is difficult to justify however, the continued expansion of imports of key items when American producers of those commodities are in financial difficulty. Indeed, in many cases these American producers are going out of business because there is no profitability left in the enterprise.

Again addressing myself to the problems of the agricultural commodities being discussed here, I would point out that American farmers and ranchers face a cost structure that means they must pay more for labor and supplies, pay higher taxes and meet more rigid market standards than their foreign competitors. No group has been quicker to adopt improved technology in an effort to reduce production costs. The result of the industry's efforts is well known. The American people are the best fed, best clothed on earth—and this is accomplished at the lowest possible cost.

I am certain that after you have had an opportunity to weigh all the evidence that will be presented here you will see the justice and necessity for import limitations on certain key commodities. I would like to urge once again that prompt and effective action be taken to make these limitations effective.

Statement of Hon. Wayne N. Aspinall, a U.S. Representative From the State of Colorado on Agricultural Import Quotas

Mr. Chairman, I wish to thank you and members of the Committee for this opportunity to express the vital interest of my state and my district in the several import quota bills relating to agriculture, which are before you at this time . . . the proposed dairy, meat, and textile import quota bills.

I come to the Committee as the representative of a rural area which is, to a large extent, dependent upon the welfare of beef ranchers and processing plants, dairy farmers, and sheep ranchers.

There is no need for my going into detail on facts of which I know the Committee is aware. It is evident that there has recently been a sharp rise in importation of meat—beef in particular—dairy and textile products.

It is clear that these increases, and further increases, contribute to difficulties now being experienced in farm and ranch operations in these areas.

The proposed legislation is reasonable. It has been argued that the United States must respect the desire of other nations to sell to us, and this is so. The proposed legislation does not eliminate importation. It rather limits it to levels consistent with our past record of trade by use of base periods as standards. It allows adjustment of importation levels in accordance with our rates of consumption—and in the case of beef, our rates of production. In other words, the bills limit importation to a level consistent with the capacity of our economy to absorb it without doing damage to our domestic producers.

The economic pressures being felt by our farm population are heavy. Farmers and ranchers have been forced to dip into their operating capital to pay living and operating expenses. In 1950, farmers owned 91% of the equity in their operations. Today they own 83%, according to the 1967 Economic Report of the President. In the depth of the Depression, in 1930, farmers owned 79% of the equity in their operations—just four per cent below the figure for last year.

Under these conditions, there are many good and efficient family farms which may be forced out of operation. These families cannot enjoy the benefits of living during this era—the most productive and prosperous in our nation's long history. Neither can they pay fair wages to their help.

Let me quote for you, again from the President's Economic Report for 1967; the wage rates per hour in Agriculture and in the seven other industries cited in the report: Agriculture, $1.03 per hour; Retail trade, $1.91 per hour; Manufacturing, $2.71 per hour; Wholesale trade, $2.73 per hour; Telephone Communications, $2.78 per hour; Class I Railroads, $3.00 plus per hour; Bituminous coal mining, $3.64 per hour; and Construction, $3.87 per hour.

Our farm population is much reduced in size from what it has been in past years. Now just 5.6% of our people live on farms, and with increased efficiency, one farmer feeds 38 Americans. Our farm and ranch people continue to be among the most industrious of all of our citizens. In this light, the economic burden now lying squarely on the shoulders of our rural areas, our farmers and ranchers, is not just.

Additionally, economic adversity, low wages and low income have forced many in the agricultural labor force to look to cities for support. The tremendous migration of the rural southern Negro to northern cities has been brought about, in large part for this reason. Our cities, however, appear poorly equipped to handle this rural outpouring.

Of course there are many causes for the economic problems confronting our farm and ranch populations. But insofar as these import quota bills will be helpful in giving relief to those in the beef, sheep and textile industries, it would appear that they are justified. We wish to accommodate the trading aspirations of our friends and neighbors in the world, but we must also recognize the needs of our people in our agriculture and industry here at home.

[Telegram]

WASHINGTON, D.C.

Senator RUSSELL B. LONG,
Chairman, Senate Committee on Finance,
U.S. Senate, Washington, D.C.:

The National Council of Farmer Cooperatives vigorously opposes any piecemeal or hasty approach to import quota legislation. Proposals of bills considered by the Senate Finance Committee this week would trigger strong retaliation against many of our agricultural exports which are vitally important to U.S. farmers and our balance-of-trade position. Farmers should not be asked to pay for benefits to U.S. industry from import restrictions. We urge you not to approve such bills which in effect threaten loss of gains achieved through the Kennedy round. For the good of the overall economy, legislative proposals should fully consider effects on farm exports at the same time they deal with industrial product imports.

KENNETH D. NADEN,
National Council of Farmer Cooperatives.

COMITÉ NORTEAMERICANO PRO-MÉXICO, A.C.,
Mexico 1, D.F.

HON. RUSSELL LONG,
Chairman, Senate Finance Committee,
Washington, D.C.

HONORABLE SIR: The Board of Directors of the Comité Norteamericano Pro-México, A.C., in regular session on 25 October, 1967, passed the following resolution.

Pursuant to its charter, the purpose of this Comité is: "The furtherance of good relations between the United Mexican States and the United States of America by cultural, civic, social and propaganda activities. . . ."; therefore, we are obliged to present to the Senate Finance Committee of the Congress of the United States of America the opinion of this Comité regarding the present investigations being pursued pertaining to the establishment of a "quota system" on importation of certain specific items of produce.

This Comité, while composed of American businessmen living and doing business in Mexico, and for the most part representing the largest United States firms, is interested exclusively in the effect such a regulation would have on the relationship existing between the two countries.

Publicity given the investigational hearings states that the proposal is "nonpreferential", in that it is not more favorable toward one country than another, however, the nature of the products listed do create a preferential situation for the products are not universally exported by all countries.

While the Senate Finance Committee is conducting hearings to limit importation of some of Mexico's major items of export, other branches of the government of the United States of America are supplying aid to stimulate and promote the development of agriculture and manufacture in Mexico, consistent with the aims of the Alliance for Progress, etc., toward which goal Mexico has diligently and successfully worked.

Any curtailment of Mexico's ability to dispose of its increase in productivity in agriculture or manufacturing brought about as a result of its respect for and compliance with the programs promoted by the Government of the United States of America would have a very noticeable effect on the high sense of mutual respect, consideration and understanding which has characterized the relationship between these two countries in recent years.

It is, therefore, our considered opinion that the Senate Finance Committee should reevaluate the problem with which it is confronted and search for a solution consistent with the overall policies and activities of the Government of the United States of America in its relationships with all other countries of the world.

Thanking you for your attention to this petition, we remain

Yours very truly,

MERLE B. HAYES,
President.

DEPARTMENT OF AGRICULTURE,
Tallahassee, Fla.

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

DEAR SENATOR SMATHERS: Action was taken at the recent meeting of the National Association of State Departments of Agriculture during their annual meeting on foreign trade which I feel will be of great interest to the Senate Finance Committee.

In case you have not received the official certified Resolution from NASDA, I am taking the liberty of forwarding you seventeen copies of the unofficial work copies of the Resolution relating to Foreign Trade for distribution to members of the committee.

I know that you will be vitally interested in the position that NASDA has taken and will want to consider this Resolution in your deliberations this week on meat and other commodity import problems.

With warm personal regards, I am,

Sincerely,

DOYLE CONNER, *Commissioner.*

RESOLUTION XIV (MARKETING, TRANSPORTATION AND WEIGHTS AND MEASURES)

FOREIGN TRADE

Whereas, the United States has established a national policy of eliminating poverty, and providing a minimum wage in excess of that paid to workers in any other country of the world; and

Whereas, agricultural producers in other countries do not have to meet high and ever increasing cost factors comparable to those facing United States producers; and

Whereas, it is the established policy of all other countries of the world to protect their domestic agricultural industries, importing products in relation to their wants and needs, while the American farmer is expected to compete with unlimited imports of many agricultural commodities in excessive volume for these importing countries; and

Whereas, in accomplishing the long-range goal of increased world trade, the American farmer is caught in an untenable position of non-reciprocal treatment for his products by other countries; and

Whereas, failure to maintain a vigorous and expanding domestic agricultural food industry will be seriously detrimental to the civil defense posture of this nation; and furthermore, leave the United States consumer at the mercy of supply and price policies set by foreign governments for a substantial part of their food needs; and

Now, therefore, be it resolved, that the National Association of State Departments of Agriculture in convention assembled at Atlanta, Georgia, October 1–5, 1967,

(1) Supports domestic agricultural industries in their position of maintaining present levels of import tariffs for agricultural products;

(2) Urges the Congress of the United States to determine, with advice and guidance of the States and representatives of domestic agricultural producers, what additional protection and limitations are needed in light of import discrimination on the part of other nations and their ability to "over supply" the United States market; and

(3) Urges the Congress of the United States to expeditiously initiate legislation based on said findings.

National Confectioners Association of the United States, Inc.,
Washington, D.C.

Hon. Russell B. Long,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

Dear Mr. Chairman: The confectionery industry is very much interested in the current proceedings of your Committee concerning unfair import competition.

It is requested that this communication be made an official part of the record of the Committee and printed in the hearings.

This statement is presented in behalf of the National Confectioners Association, which is the national trade association of candy manufacturers located throughout the United States, whose members we estimate produce approximately 85 per cent of the candy manufactured in the United States.

For some years we have questioned the wisdom of United States international trade policy which, in our opinion, has resulted in the United States giving much more than it has received in tariff concessions and also in granting concessions frequently cn products competitive with our own industries while receiving from other countries concessions governing products in which the United States has little or less competitive interest.

The United States confectionery industry (both sugar candy and chocolate) under the Tariff Act of 1930 had the protection of a 40 per cent ad valorem duty. This duty has been consistently reduced. Further reductions, to the maximum extent permitted by law, occurred at the recently concluded international negotiations. When the full affect of these reductions occurs, the duty on confectionery, other than solid chocolate, will be only 7 per cent, and the duty on solid chocolate will be only 5 per cent.

Competition from imports is particularly unfair because due to policies of our Government, the prices which we must pay for the principal agricultural products with which confectionery is manufactured are much higher than the price for which foreign manufacturers of confectionery may obtain these materials for the manufacture of confectionery to be shipped to the United States.

With confectionery imports already substantial, and with the unfair competition situation existing as to our costs in relation to the costs of our foreign competitors, of which our governmental negotiators had knowledge, we were astonished that an additional 50 percent reduction in confectionery and chocolate import duties was negotiated. The administrative authorities in our Government responsible for this action, in our opinion, have displayed a complete lack of good judgment. It is our view that Congress must act on the matter.

The practical legislative situation being what it is, with the known strenuous opposition of the administration to quota legislation, the only practical approach to the problem, if Congress really wants to do something about it, is to add to the Social Security Bill, H.R. 12080, provisions whereby through a mandatory administrative procedure an industry seeing its United States market being eroded unfairly may apply for and obtain import quotas under certain conditions. Quotas should be established when imports increase substantially in volume or if such goods may be imported at landed costs significantly below the price at which competitive domestic articles are sold in the United States.

As a practical matter, the present time is an excellent time for Congress to take this action. This is because of the widespread across-the-board tariff reductions recently negotiated.

If quotas are imposed on many products so as to limit imports to approximately the current volume except to permit some expansion of imports as the United States total market increases, this action should permit foreign suppliers to increase handsomely their profits because of the lower duties which will commence to become effective in the near future. *Foreign producers would not sell much more of their products in the United States market, but they should be able to make substantially more money on what they do sell with orderly marketing resulting and further injury to domestic industries prevented.*

Most importantly, however, let it be restated that the Committee certainly should recognize that to make effective its wish to deal constructively with the problem, provisions pertaining to the subject should be added to other legislation which the administration is seeking. It is our belief that the Social Security Bill, H.R. 12080, without question, provides the best opportunity, and amendments in accordance with our suggestion to this legislation are urged.

Respectfully submitted.

RICHARD H. HARDESTY, Jr.,
Vice President.

STATEMENT OF JOHN D. PALMER, PRESIDENT, TOBACCO ASSOCIATES, INC., WASHINGTON, D.C.

For more than three centuries and without interruption, exports of unmanufactured tobacco from this country have played a leading and vital role in the well-being of our economy. These are the facts as of today:

1. Exports in the fiscal year ended June 30 exceeded 700 million pounds, farm weight, with a value of $505 million.
2. Of that value, 79% represented cash sales and thus contributed nearly $400 million to our balance of payments.
3. Of the shipped weight, more than 31% went to the European Common Market.

America exports because it imports-exports tobacco and all the other commodities and products that add up to the $29.4 billion in calendar 1966. In the hands of Congress, or about to be introduced, are proposals that would build a wall against imports. That same wall would even more effectively shut off our trade overseas.

As far as tobacco itself is involved, here are the cold facts with respect to one area alone, the European Common Market which, as noted above, takes nearly a third of our exports. Before the Council of Ministers today are proposals by the Common Market Commission for an agricultural policy covering tobacco. In substance, that proposal would encourage increased production in the Community by high price support payments; and, when supplies of such tobacco reached surplus levels, imports would be reduced or cut off entirely under an import licensing system. Today, tobacco manufacturers in the Community are entirely at liberty to buy from third countries free of any form of restriction either as to quantities or values. Carried to the extreme, the Commission proposal could mean the loss of a market worth far in excess of $100 million annually to the American farmer. Thus far, the Council has not accepted the proposal, but let there be no doubt that restrictions by the Congress on imports would provide both a reason and an excuse to make it operative. By extension, retaliatory action in one form or another would inevitably occur in all other major markets overseas.

Let there also be no doubt on this point. While America is still the world's largest producer of tobacco, the world is not—I repeat, not—dependent upon our crop. In every part of the globe—in South America, Africa, Eastern Europe and the Far East—production has been expanded enormously. In flue-cured, the principal component of cigarettes, production abroad has spiraled from less than 500 million pound annually prior to World War II to five times that figure in 1966. It can easily and quickly expand to the point that American tobacco will no longer be needed. Mark you well that the tobacco industries of West Germany and Japan, our second and third largest customers today, were without our product all during the war years. It took a monumental effort to rebuild both markets. Unwise, unnecessary and unrealistic tariff walls on our part will cause them only superficial, temporary inconvenience. For the American farmer, the result could be irreparable damage.

Statement of George S. Bullen, Legislative Director, National Federation of Independent Business

The National Federation of Independent Business appreciates the opportunity to submit this statement on the general subject of import quotas.

The National Federation of Independent Business is a nationwide organization composed of more than 240,000 independents in all phases of commercial enterprise and the professions throughout the Fifty States.

Our membership is a representative cross section of the Nation's business community at the retail, wholesale, manufacturing, service and professional occupational levels. Our policies are determined by a direct poll of the members, the majority vote on each issue being the deciding factor. The majority position of our large membership distributed through all the states, and every representative by type or trade of all the Nation's 4.7 million small businesses, should carry considerable weight inasmuch as it no doubt fairly accurately reflects the opinion of all independents.

From among those commodities on which the Chairman has indicated that testimony will be taken, the Federation has determined by Mandate vote an official position supporting limitations on imports of meat and dairy products.

Our members were polled on the advisability of limiting imports of beef, veal, mutton and lamb whenever prices fall below those of a fair return to farmers. The results of this poll showed that 73% of the respondents were in favor of such a move, 22% were opposed while 5% expressed no opinion. For your information, we would like to present the poll as it went to our members:

2. H.R. 10644. Limit imports of beef, veal, mutton and lamb whenever prices fall below those of a fair return to farmers. (Cong. Foreman, Tex.)

Under this bill, whenever prices exceed those providing a fair return to farmers, additional imports will be permitted.

□ For □ Against

Following are brief arguments "For" and "Against" which we asked our members to read before voting:

2. Argument for H.R. 10644: The income of meat producers, who are vital factors to our national welfare, has dropped 20% since 1963, largely due to increased imports from Australia, New Zealand, and Ireland. Unless steps are taken now to curb these imports (which reached 11% of domestic production in 1963), they will total over one billion pounds this year. Voluntary agreements, on which we've placed reliance, just don't work. They would reduce imports by only 70 million lbs. This bill would set a basic quota of 855 million lbs. It would permit an increase in these imports whenever producers' prices exceed government guaranteed prices, revert to quota when these prices fall below the government guarantee.

2. Argument against H.R. 10644: There's reason to doubt that import increases alone threaten domestic meat producers. The Administration forsees a 27% decline in imports from Australia and New Zealand in 1964 vs. 1963. It suggests that producers' prices have been affected by (1) an over-supply of U.S. cattle because of a tendency to keep cows longer before killing them and because acreage limitations on crops and new planting methods have released more acreage to cattle, and (2) an increasing supply of competing foods such as chicken. Some Senators suggest that capital gains tax provisions have encouraged people to enter the cattle business for tax purposes, thereby enlarging supply and lowering prices.

The results of the poll were—

2. H.R. 10644. Limit meat imports to protect domestic farmers:	***Percent***
For	73
Against	22
No vote	5

During the 89th Congress we polled our members on a bill which would limit importation of dairy products. The results of this poll show that 64% of our members were in favor, 27% were opposed while 9% expressed no opinion. Again, we present the poll as it went to our members:

4. S. 3273. A bill to protect dairy farmers by limiting foreign dairy imports. (Sen. Proxmire, Wisc.)

□ For □ Against □ No vote

Following are brief arguments "For" and "Against" which our members were asked to read before voting.

4. Argument for S. 3273: Proponents of this bill say it is a major step in insuring the dairy farmer a proper share of the nation's prosperity. Moreover, it is long past due for these independent farmers to start "reaping what they have sown." Demand for milk is just starting to catch up with the supply. But such recent gains could be totally wiped out if the easy import policy is continued. Additionally, such imports not only depress dairy incomes, they cost the taxpayer—this means you. This is so because for each pound of butter and cheese imported from abroad the government is compelled to purchase an equal amount of the domestic produce under the price support laws.

4. Argument against S. 3273: The Federal Tariff Commission is charged with the duty of regulating imports. Opponents say, in effect, this bill seeks to impose the will of Congress on the Commission. While no one would suggest that foreign dairy producers should prosper and grow while domestic farmers suffer, it must be assumed at the same time that good reasons exist for the import policies followed heretofore. It has been borne out many times over that trade and exchange are beneficial to the welfare of this nation. If it is in the national interest to participate in trade agreements, a sudden stoppage could work many hardships in international relations.

The results of this poll were—

4. S. 3273. Limit foreign dairy imports:	Percent
For	64
Against	27
No vote	9

Shortly after this poll was taken, the Federation put out a press release showing the voting in each State on the bill. We have attached a copy of this release to our statement and ask that it be made a part of the record of these hearings.

Based on the results of the above mentioned specific polls, the National Federation of Independent Business would like to go on record as being in favor of limiting the imports of dairy products and meat.

PRESS SERVICE—NATIONAL FEDERATION OF INDEPENDENT BUSINESS, INC., SAN MATEO, CALIF., AND WASHINGTON, D.C.

(NOTE: Unless otherwise indicated, all facts, opinions herein are based on the majority result of individually voted ballots, with documentary support on file and open to inspection at headquarters. The Federation is composed entirely of independent business proprietors. At this time, the membership is 219,386.)

THE BRIEF FACTS

> Senator William Proxmire, Wisconsin, has before the Congress a bill known as S. 3273 to limit the importation of dairy products. At present, not only are imports steadily increasing, but under the price support law, the Government is compelled to purchase for surplus commodity storage an amount of domestic production that is equivalent to the import volume. This Proxmire bill was presented to a nationwide vote by the National Federation of Independent Business, with 64 percent in favor, 25 percent opposed, and 11 percent undecided.

The nation's dairy farms and processors are getting a pretty "cheesy" deal. In addition, insofar as the American taxpayer is concerned, there is an odor of over-ripe Limburger.

That seems to express the attitude of the nation's independent business proprietors. By a majority of 64 percent, they vote in support of the bill introduced by Senator William Proxmire, Wisconsin, to limit the imports of dairy products. The poll conducted by the National Federation of Independent Business also shows 25 percent opposed, with 11 percent undecided.

In ________________ (name of State) the vote was ____ percent in favor, ______ percent opposed with ____ percent undecided.

The problem, according to Senator Proxmire, is that there is being permitted almost unlimited imports of foreign produced cheese and butter which depresses the price received by both American dairymen and dairy processors.

Butter is another import item and although importation is held down to 707,000 pounds per year, butterfat products known as butter oil and exelone are brought into the U.S. in large quantities. These are then processed into butter and ice cream.

In addition to the economic losses suffered by domestic farmers and processors, the American taxpayer is also said to be bearing a big burden. Under the price support laws, the Government is compelled to buy as surplus commodity an amount of dairy products equal to the imports in order to minimize the losses to dairymen. Senator Proxmire claims that since 1959 the taxpayer has paid twice the value of every pound of imports.

Commenting on the situation, Federation president C. Wilson Harder says, "This is, of course, a completely ridiculous situation. In fact it is doubly ridiculous because it not only hurts American agriculture and business, but is also ridiculous that the American taxpayer is forced to subsidize foreign dairymen."

(State breakdown figures follow.)

STATE BREAKDOWN FIGURES

[This bill would limit foreign dairy imports]

State	Percent in favor	Percent against	Percent undecided
Alabama	69	19	12
Alaska	75	25	----------------
Arizona	63	21	16
Arkansas	70	22	8
California	59	31	10
Colorado	67	22	11
Connecticut	55	42	3
Delaware	75	9	16
Florida	58	30	12
Georgia	70	18	12
Hawaii [1]	----------------	----------------	----------------
Idaho	73	19	8
Illinois	62	29	9
Indiana	65	27	8
Iowa	69	21	10
Kansas	70	19	11
Kentucky	74	23	3
Louisiana	66	21	13
Maine	67	----------------	33
Maryland	61	27	12
Massachusetts	49	35	16
Michigan	59	30	11
Minnesota	68	22	10
Mississippi	72	19	9
Missouri	65	25	10
Montana	77	14	9
Nebraska	73	14	13
Nevada	62	19	19
New Hampshire	58	31	11
New Jersey	51	38	11
New Mexico	71	22	7
New York	64	25	11
North Carolina	67	23	10
North Dakota	80	13	7
Ohio	59	30	11
Oklahoma	73	15	12
Oregon	59	29	12
Pennsylvania	63	26	11
Rhode Island	67	25	8
South Carolina	72	15	13
South Dakota	83	10	7
Tennessee	73	18	9
Texas	66	25	9
Utah	63	29	8
Vermont	73	17	10
Virginia	63	28	9
Washington	62	26	12
Washington, D.C	45	45	10
West Virginia	56	28	16
Wisconsin	77	19	4
Wyoming	74	15	11

[1] Returns incomplete.

[Telegram]

HUDSON, IOWA.

TOM VAIL,
Chief Counsel, Senate Finance Committee,
Washington, D.C.:

When agricultural exports are growing we view with concern bills pending to restrict imports. We recognize the need to provide certain protection to some major domestic industries. However, trade is a two-way street. Barriers erected in the United States could result in like action by other countries. We favor keeping trade channels open.

Farmers are large buyers as well as sellers. Restrictions that increase price of machinery or supplies farmers buy would be inappropriate at this time of lower prices and rising costs.

Soybeans are the No. 1 export crop. Over 40 percent of the soybeans produced in 1966 went overseas. It is overseas demand that stimulates price. The growth potential lies overseas. The American Soybean Association has long stood for reducing trade barriers. This resolution was passed at the annual convention in 1963: "Continued strides forward in transportation and communication make it increasingly apparent that international trade on a fair, competitive basis is essential to all nations welfare and progress. The United States should lower its tariffs on oil seeds and should urge that all nations should do the same." Representing longtime interests of soybean growers, we ask that your committee oppose action that might precipitate a round of trade restrictions.

CHET RANDOLPH,
Executive Vice President,
American Soybean Association.

[Telegram]

WEST POINT, IOWA.

Senator LONG,
Chairman, Finance Committee,
Washington, D.C.:

The Iowa Soybean Association take a stand against the Import Restriction Bill. The soybean growers will loose part of their overseas market by restricting exports. At this time the farmer and the United States cannot afford to lose this trade.

BILL MERSCHMAN,
President, Iowa Soybean Association.

[Telegram]

PLAINVIEW, TEX.

Senator RUSSELL LONG,
Chairman, Finance Committee,
Washington, D.C.

Since 42 percent American soybean production exported last year, the Texas Soybean Association opposed to import restriction bills that could result in retaliation from affected countries.

W. B. TILSON,
President, Texas Soybean Association.

CENTRAL SOYA,
Fort Wayne, Ind.

Hon. RUSSELL B. LONG,
Chairman, Senate Finance Committee
U.S. Senate, Washington, D.C.

DEAR SENATOR LONG: It has come to our attention that the Senate Finance Committee will shortly be considering legislation designed to limit certain U.S. imports through imposition of specific import quotas. News reports have indicated that Japan, the European Economic Community and other European Nations have notified United States authorities that if these restrictions are imposed, retaliatory actions will be taken against U.S. agricultural commodities in general and grains, soybeans or soybean meal in particular. I am not aware of all the items for which quotas are suggested nor the full benefits to be derived from these import quotas. However, I would urge you to consider carefully the potential damage to U.S. agriculture which could occur from retaliatory actions against our agricultural exports.

As you know, the production from more than one out of every four acres of U.S. cropland is sold in export markets. Soybeans and soybean products alone accounted for over $1 billion in dollar exports during fiscal 1966–67. Japan and Western Europe purchased approximately 80% of U.S. exports of soybeans and soybean meal. Any retaliatory actions by Japan and Western Europe against soybeans, soybean meal, or grains would be very damaging to U.S. agriculture and the U.S. balance of payments. It is indeed possible that the damage to U.S. agriculture would equal or exceed any benefits to be gained from limiting U.S. imports by establishing specific quotas.

Central Soya Company, Inc. would like to go on record as opposing any actions which might tend to restrict U.S. export markets for agricultural commodities. Thank you for your kind consideration of this matter.

Sincerely yours,

HAROLD W. MCMILLEN,
Chairman of the Board.

STATEMENT BY WESTERN WHEAT ASSOCIATES, U.S.A., INC.

Western Wheat Associates in the regional market development association formed by the wheat commissions and wheat grower associations in the States of Oregon, Washington and Idaho. We contract with the U.S. Department of Agriculture, Great Plains Wheat, and the Nebraska Wheat Commission to carry out the wheat market development program for all U.S. wheat in the Asian area.

We would like to briefly outline the importance of the Asian wheat market to the United States and the competitiveness of the well stocked suppliers vieing for larger sales to Asia. These two points dramatically indicate that this nation stands much to lose if protectionist legislation is passed. Import controls, in all probability, would result in retaliatory restrictions on U.S. commodities flowing into export outlets.

The Asian area is the largest market iin the world for food grains. Last year approximately 54% of total U.S. wheat exports valued at an estimated 500 million dollars, moved to this region (see appendix). This trend will continue because most of the world's population is centered here and the people's income and food habits are such that cereal grains will continue as the main part of their diet for many years into the future.

In Japan, imports of U.S. wheat have risen from a yearly average of 40 million bushels in the 1955 to 1959 period to over 79 million bushels in Japan Fiscal Year 1967. This is approximately a 100 percent increase in a ten year period. U.S. wheat imports are forecast to climb significantly higher this year to about 90 million bushels.

The U.S. share of the Japanese wheat market six to eight years ago was about 83%. For the last three years the United States has had over 50% of the market and her share has been steadily increasing and is expected to be over 55% this year. Today, Japan is the largest cash market in the world for U.S. wheat.

The Philippines is the second largest cash market in the Asian area and ranked as the fourth largest U.S. cash market in the world in 1965/66. The Philippines imported 21 million bushels of wheat and wheat products. It is estimated that about 88% was imported from the United States.

Taiwan today is a cash market and is no longer captive to the U.S. as it has been under PL 480. The Chinese Government has already requested the flour millers to buy more than one million bushels of wheat from Australia for reciprocal trade purposes.

Taiwan has been importing about 15 million bushels of wheat annually and Mr. K. T. Li, Minister of Economics, proposes the ambitious goal of expanding wheat imports during the next five years to 25 million bushels. Since liberalization on February 22, 1967, the U.S. share of wheat imports has been over 90% but it is anticipated that economic and political policy will tend to influence Taiwan to broaden their base of supplies for all imported commodities.

South Korea is making rapid economic progress and is now buying about half (9 million bushels) of her wheat needs for cash. There are smaller cash markets in Hong Kong, Okinawa, Singapore, Malaya and Thailand. There are, of course, several under-developed countries in Asia that continue to obtain wheat and other commodities under PL 480. India is the outstanding example in this category.

For many years the United States seemed to have accepted the position of being a residual supplier of wheat in world markets. Then in January of 1965, the USDA made a policy decision to be aggressively competitive in the world cash markets. Since that time we have generally been competitive, particularly in Japan and other countries in the Asian area. For the U.S. to continue its present level of wheat exports and to expand markets in the future in the Asian area, it will be absolutely essential that the U.S. Department of Agriculture continue this policy of being aggresively competitive in price in the cash markets.

Competition presently is exceedingly keen because of increased acreage and favorable climatic conditions which have sent supplies of our competitors soaring. Supplies of wheat in millions of bushels held by the three traditional exporters to the Asian market at July 1, 1967, for export and for carryover with last year's comparable figures in brackets were: United States 425.7 (535.2); Canada, 629.2 (485.5); Australia 207.2 (87.1). Total supplies were 1.262.1 million bushels—up 154.8 million bushels (13.9%) over July 1, 1966. U.S. supplies are down 20% over 1966 while Canadian and Australian supplies are up 29.6% and 137.9% respectively! The U.S. has maintained a strong export program and restricted wheat acreage in maintaining carryover at a reasonable level.

The important point to be brought before this Committee is reciprocal trade. This, of course, is recognized by all of those seeking to expand markets overseas for American business. Wheat producers know, for example, that they must buy from Japan, Taiwan and the Philippines if they expect those countries to continue to buy U.S. wheat.

Japan has indicated that she will retaliate if the U.S. applies import curbs on textile imports. Wheat is a probable item of retaliation and reprisal would be relatively easy since Canada and Australia are desperately trying to increase their share of Japan's wheat imports.

There is sufficient reason to expect other Asian countries to react in a similar manner as Japan if protectionist legislation is passed. U.S. wheat exports throughout the Asian area are particularly vulnerable to reprisal because alternate wheat suppliers are eager for business.

Any significant loss of sales would be detrimental to the nation's wheat producers. Producers in Pacific Northwest would be the first to feel the effects since wheat is their primary crop and export markets have historically provided an outlet for approximately 85 percent of their annual production. The importance of wheat in this area is not measured solely in terms of cash income to farm families who raise the crop. Many people are engaged in financing, transportation, storing, processing and marketing wheat.

In conclusion, we oppose protectionist legislation for the following reasons:

1. Total disappearance into domestic and export channels of U.S. wheat is forecast to be about 10 percent less than 1967 production. Increased exports are necessary to remove excess wheat which depresses market price.

2. Wheat producers are currently experiencing prices 15 to 20 cents per bushel less than 1966 prices. The resulting low returns are nearing the crises level. Strong export markets are needed to improve prices.

3. Historically, eighty-five percent of the Pacific Northwest annual wheat production has moved to export markets. Nationally over half of the U.S. wheat crop is exported. Any reduction in exports is reflected not only to the farm families who raise the crop but to many other people engaged in the various phases of the wheat industry.

4. Wheat producers organizations and the U.S. Department of Agriculture have worked long and hard to make U.S. wheats competitive and acceptable in foreign markets. As a result, commercial and overall wheat sales have reached record highs. Much of this work would be undone if protectionist legislation is passed and wheat importers retaliate as they have indicated they will.

5. Our organization believes more efforts should be devoted to trade expansion and any actions which might restrict world trade should be avoided.

APPENDIX

WORLD WHEAT EXPORTS, JULY 1965 TO JUNE 1966

[Exports in thousands of metric tons]

	Total exports	Percent world	U.S. exports	Percent United States
Western Europe	13,043	20.9	4,904	37.6
Eastern Europe	5,408	8.7	71	
U.S.S.R.	8,629	12.8		
North America	63		5	7.9
Central America	1,350	2.2	397	29.4
South America	4,505	7.2	2,236	49.6
Near East	2,353	3.8	1,656	70.4
Africa	4,795	7.7	2,593	54.0
Oceania	227		3	
Unspecified	110			
Subtotal	40,483		11,565	
Far East	21,850	35.0	11,532	52.8
Total	62,233		23,397	

EXPORTS OF WHEAT AND FLOUR TO FAR EAST, JULY 1965 TO JUNE 1966

[In thousands of metric tons]

	Argentina	Australia	Canada	United States	Others	Total
Burma	....	....	4	....	(¹)	4
Ceylon	....	224	24	27	111	386
China (mainland)	2,241	1,971	2,053	....	73	6,338
China (Taiwan)	28	75	2	303	....	408
Hong Kong	....	80	50	25	14	169
India	....	169	308	7,137	41	7,655
Indonesia	....	4	....	18	33	55
Japan	....	364	1,285	1,943	....	3,592
Korea (North)	20	102	....	....	271	393
Korea (South)	....	....	2	554	10	566
Malaysia	....	265	36	2	31	334
Pakistan	....	55	34	968	....	1,057
Philippines	....	2	88	435	54	579
Thailand	....	24	14	3	1	42
Vietnam						
Loas	....	(¹)	....	114	13	127
Cambodia						
Unspecified	....	3	1	3	38	45
Total, Far East	2,289	3,338	3,901	11,532	690	21,750
Percent of markets	10.5	15.3	18.0	52.9	3.3	....

[1] Less than 500 tons.

STATEMENT BY GREAT PLAINS WHEAT, INC., SUBMITTED BY MEARL H. GIFFORD, CHAIRMAN OF THE BOARD AND PRESIDENT

Great Plains Wheat, Inc. is a regional market development organization which represents the wheat growers of six states in the Great Plains area of the Midwest. This organization was founded for the purpose of developing export markets for U.S. wheat. We administer an active market development program in South and Central America, Europe, Africa and the near East. In addition, we help support the market development program administered by Western Wheat Associates in the Far East. Our development work abroad is done in collaboration with the U.S. Department of Agriculture, with whom we contract for funds to conduct our programs.

Our organization was formed a decade ago as a positive response to the need of the U.S. wheat farmer to do something to improve his circumstances. A few years ago the United States was burdened with huge stock piles of wheat hanging over and depressing the U.S. wheat market. Per capita consumption of wheat flour products in the United States continues to decrease slightly, although overall domestic requirements remain approximately the same, due to the increase in population. The only hope for the wheat farmer seems to lie in finding and holding new export markets or increasing old ones for U.S. wheat. The old stocks are now gone, and the U.S. wheat producer feels that he is entering into a new area. Active involvement in world markets has impressed upon the United States wheat producer how important export is to him. In our work, we have found that one of the greatest obstacles to be overcome is constituted by trade restrictions such as tariffs and import quotas. As advocates of freer world trade, we have been quite disturbed to note lately the rising interest in protectionist legislation in the United States. We fear that such legislation and the flood of retaliatory measures which would undoubtedly be its result, would be extremely prejudicial to the U.S. economy, as well as the U.S. wheat producer.

Although the United States, like many other countries in the world, has been plagued with balance of payment problems, the U.S. has enjoyed and continues to enjoy a favorable balance of trade. It would be unrealistic to assume that the United States could put into effect measures which would tend to discourage purchases from its trading partners, thereby worsening their balance of trade with the United States, without expecting these trading partners to adopt similar methods to avoid an unfavorable imbalance of trade for them. Unfortunately, protectionism breeds further protectionism, for no nation could permit a policy of free or relatively free imports if it found that its own goods encountered trade barriers in the world market. Indeed, threats of retaliation have already been voiced by some of the United States' strongest trading partners. The items mentioned against which retaliatory measures would be taken were agricultural products, notably feed grains, soybeans, wheat and poultry.

Possible retaliation by restricting wheat imports is a real threat. We cannot possibly hope to comfort ourselves by thinking that the world is dependent in the United States for its wheat supplies. This year we have seen bumper crops produced all over the world. Canada is faced this year with the prospect of huge stocks of quality wheat. The Australians have increased their wheat acreage appreciably, and we are meeting Australain competition in countries which they had previously neglected. Any country which chose to restrict its imports of U.S. wheat would find sufficient other sources which were not only willing but very able to sell large quantities of quality wheat. It is no secret that we enjoy an advantage in the Japanese market by virtue of our strong trading ties with them. If this trade balance were weakened through measures which would restrict Japanese sales to the United States, Japan could and would probably turn to Canada and Australia for increasing quantities. This would destroy the years of effort expended in cultivating this market.

We should point out that protectionist legislation already presented could reduce Japan's exports to the U.S. by approximately $1.3 billion, approximately 43% of its total exports to the U.S. Additional bills presented more recently would cut even more deeply into this trade.

Nor can we delude ourselves by referring to discussions on a world shortage of food. There are indeed nations which have a food shortage, and the United States has responded and continues to respond generously to those in need. We are interested in commercial sales, however, and we are realistic enough to expect hard competition for the cash markets for at least the next 15 or 20 years. We do not anticipate a shortage of wheat for those countries who are willing and able to pay for it.

In discussing the importance of agricultural trade to the nation, Secretary Freeman recently quoted Secretary Fowler as saying, "I don't know what we would do today if the annual agricultural exports for dollars hadn't increased 2.2 billion dollars since 1960." Secretary Fowler was reported to have continued with the thought that we would long since have faced a national economic crisis of great proportions and that the value of the dollar would have been seriously undermined, were it not for the substantial flow of dollars into the Treasury from agricultural exports.

Since 1960, according to the Secretary of the Treasury, rising dollar exports of farm commodities have had a cumulative dollar earning of 7.3 billion dollars to add to our balance of payments. If we were to pursue protectionist policies, we would lose a substantial part of these hard currency cash exports because of the inevitable retaliations which would result.

In the two decades since World War II we have seen the advancement of policies which tend to free trade within economic and political blocs. We have seen the great advantages which membership in the European Common Market has meant to the nations which comprise it, and we are witnessing the efforts of the Latin American nations to emulate this success by freeing trade among themselves. We see freer trade also in the countries comprising the Outer Seven group in Europe and steps in this direction even among the African nations. Movements to freer trade are not limited to the Western nations, for the nations of Eastern Europe have likewise formed a group to free trade among themselves. It is surprising that the United States, who has encouraged the liberalization of trade among these countries, should be considering legislation intended to restrict imports from some of the United States' strongest trading partners.

We in the United States have enjoyed a very strong advantage over most of the other countries in the world in that we have had a large and strong consumers' market within our own country. From this comfortable position we have been able to sympathize with nations who admittedly have to export to survive. Suddenly, to a lesser degree perhaps, we find ourselves in the same situation. There is hardly a facet of U.S. industry which is not dependent upon export markets to consume a certain percentage of its production. Modern technology has brought about an increase in productivity in both industry and agriculture. Having already produced enough to satisfy domestic demand, this excess production must find its way into export markets. If some of these export markets were closed to the wheat producer, it could spell disaster for him, as he depends upon export to take over one-half of the total annual disappearance of U.S. wheat. Wheat exports, are, therefore, not only important to the wheat producer—and therefore, to the U.S. economy—but extremely necessary. These exports would be seriously threatened if the United States were to adopt the protectionist measures being proposed.

In the world of today, made smaller by modern rapid means of communication, restrictions on movements of people and goods are being either abolished or modified. We recognize and deplore the fact that some countries have adopted some types of protectionist measures. We feel, however, that these could and should be combatted by administrative action. We feel that if the United States were to adopt a similar policy it would set U.S. trade relations back 30 years. This would tend to place the United States into a type of economic isolation which would, in a modern world, be more incongruous than the political isolation of the 1930's.

Statement of the Grain & Feed Dealers National Association Submitted by William R. Pearce, Chairman, International Trade Committee

Few American industries are as dependent upon exports as the grain industry; but few can match its affirmative contributions to our international balance of payments. More than half the wheat grown in the United States is produced for export. Last year wheat, feed grains and soybean exports were valued at more than one billion dollars each.

Like many other agricultural commodities, international trade in grains already labors under a disproportionate burden of protectionist devices, tariff and non-tariff alike. Further, agricultural concessions made by the United States during the recent Kennedy Round will subject international wheat trade to additional restrictions if the proposed International Grains Arrangement is implemented as scheduled next July 1. Similar arrangements for feed grains and oilseeds already have been suggested.

If Congress endorses the protectionist measures presently before the Committee on Finance, retaliation by our international trading partners inevitably will be directed toward those commercial exports which not only reflect a significant earnings capacity for our balance of payment, but which also enjoy the greatest potential for expansion. Grain exports would be a certain victim of such retaliation. Indeed, confirmation of their retaliatory intent in the form of stern diplomatic warnings from the governments of our major trading partners already has been received.

We respectfully submit that the national interest would suffer from such an exchange and that the United States would be the certain loser if it elects to reverse its traditional liberal trade policies.

Statement of Roy F. Hendrickson, Executive Secretary, National Federation of Grain Cooperatives, Washington, D.C.

Mr. Chairman, my name is Roy F. Hendrickson, Executive Secretary of the National Federation of Grain Cooperatives. The Federation consists of 26 regional or federated grain marketing cooperatives located in all of the principal terminal and sub-terminal grain marketing centers of the United States. A list of the Federation's direct membership is attached, marked "Exhibit A."

These member associations, in turn, are owned by approximately 2,700 local grain marketing cooperative associations. These are located throughout the grain and oilseed producing areas of this country.

These organizations are owned and controlled by approximately one million grain producers who have invested substantial capital in modern facilities and equipment. These are required to establish, maintain, and expand an integrated cooperative grain marketing system. They do this in order to reduce farm marketing costs and to improve farm income from sales of grains and oilseeds. Farmers invest in facilities and organize associations also to improve the quality of marketing services available to them as producers.

Twenty-two of these regional grain marketing cooperatives also own and operate the Producers' Export Company. The exporting company has been actively engaged since 1958 in marketing U.S.-produced grains and oilseeds to outlets overseas. This is part of the effort of grain marketing cooperatives to develop and expand markets overseas as well as domestically.

U.S. commercial exports of wheat, corn, grain, sorghum, barley, rice, oilseeds and products have in recent years been valued at approximately $2.8 billion.

The attached table, marked "Exhibit B," indicates the value of selected commodities exported in recent years for dollars, along with total commercial sales of all agricultural commodities exported for dollars.

Of course, this large and growing volume of grain and oilseed exports is of tremendous importance to farmers because of the income which it provides.

Moreover, the employment, both direct and indirect, which these exports provide should not be overlooked.

These exports also have made a major contribution in recent years towards meeting this nation's balance of payments problem.

Grain farmers in this country have been asked in recent years to support export-oriented grain programs. These have involved substantial adjustments in price, especially a reduction in loan price levels.

The loss of even a single foreign market, which is certain to happen should proposals to establish import quotas on selected agricultural commodities and industrial items be approved by Congress, would adversely affect the economic interest of farmers.

Exhibit A

Membership of the National Federation of Grain Cooperatives

Agway, Inc. Area 10 Grain Department—Canandaigua, New York.
Arkansas Grain Corporation—Stuttgart, Arkansas.
Arkansas Rice Growers Cooperative Association—Stuttgart, Arkansas.
Cotton Producers Association—Atlanta, Georgia.
Equity Export Corporation—Deer Park, Texas.
Equity Union Grain Company—Lincoln, Nebraska.
Grain Division, Farm Bureau Cooperative Association, Inc.—Columbus, Ohio.
Farmers Cooperative Commission Company—Hutchinson, Kansas.
Farmers Grain Cooperative—Ogden, Utah.
Farmers Grain Dealers Association of Iowa—Des Moines, Iowa.
Farmers Union Cooperative Marketing Association—Kansas City, Missouri.
Farmers Union Grain Terminal Association—St. Paul, Minnesota.
Illinois Grain Corporation—Chicago, Illinois.
Indiana Grain Cooperative—Division of Indiana Farm Bureau Cooperative Assn., Inc.—Indianapolis, Indiana.
Inland Empire Pea Growers Association—Spokane, Washington.
Michigan Elevator Exchange—Division of Farm Bureau Services, Inc.—Lansing, Michigan.
Mid-States Terminals, Inc.—Toledo, Ohio.
MFA Grain Division—Columbia, Missouri.
North Pacific Grain Growers, Inc.—Portland, Oregon.
Ohio Farmers Grain Corporation—Fostoria, Ohio.
Producers' Export Company—New York, New York.
Producers Grain Corporation—Amarillo, Texas.
South Carolina Farm Bureau Marketing Association—North Charleston, S.C.
Southern States Grain Marketing Cooperative, Inc.—Baltimore, Maryland.
Union Equity Co-operative Exchange—Enid, Oklahoma.
Westcentral Cooperative Grain Company—Omaha, Nebraska.

Exhibit B

SELECTED COMMERCIAL AGRICULTURAL EXPORTS, BY TYPE AND VALUE, FISCAL YEARS 1965-66, JULY-MARCH 1967

[In millions of dollars]

Commodity	Value		
	1965	1966	1967
Wheat and flour	249	465	537
Feed grains	864	1,237	768
Rice, milled	134	160	136
Oilseeds and products	961	1,087	857
Subtotal	2,208	2,949	2,298
Other	2,192	2,116	1,817
Total sales for dollars	4,400	5,065	4,115

Source: Tabulated from "Foreign Agricultural Trade of the United States," Economic Research Service, U.S. Department of Agriculture.

STATEMENT SUBMITTED ON BEHALF OF THE CALIF. OLIVE GROWERS & CANNERS INDUSTRY COMMITTEE AND THE GREEN OLIVE TRADE ASSOCIATION, INC., BY JOHN E. NOLAN, JR.

This statement is submitted on behalf of the California Olive Growers and Canners Industry Committee and the Green Olive Trade Association, Inc. The California committee is composed of all of the grower members and three-fourths of the processor members of the Olive Administrative Committee, which is the group of producers and processors who administer the federal marketing order on olives. The Green Olive Trade Association is composed of nearly all of the principal independent U.S. importers of Spanish olives. Together these organizations represent an industry which employs over 4,000 farmers and workers and has over 40 million dollars invested in olive groves and tens of millions in processing plants.

The U.S. olive market has for many years been divided almost equally between (1) green olives imported in bulk from Spain and bottled in the U.S., and (2) olives grown in California and processed as black "ripe" olives and canned there.

Unlike the tariff structure for many other agricultural products, the present U.S. tariff schedules do not contain a separate classification for olives in containers packed for immediate consumption. Thus, olives which are bottled or canned for consumption pay the same low duty as olives imported in bulk for bottling in the U. S. This tariff structure was adopted in 1930 because Spain then had no bottling industry and there was no need for a higher duty to protect the American bottlers. Nor at that time did Spain have facilities for processing or canning olives California-style—that is, as black, so-called "ripe" olives. In reliance upon the duty structure built around this competitive situation, the two elements of the American olives industry have devoted great effort and millions of dollars to building up their respective facilities and markets.

Recently a bottling industry has been developed in Spain to take advantage of this gap in U.S. tariff structure. Moreover, the Spanish government in order to encourage the development of the bottling operations, gives extensive subsidies to new packaging plants and refunds internal taxes amounting to 12% of exports. In addition to these subsidies, the Spanish bottlers enjoy the insuperable competitive advantage of wage rates that are about one-sixth of U.S. rates. As a result, olives packed in the new Spanish bottling plants are being sold in the U. S. at prices as much as one-third below comparable Spanish olives packed in the U. S., and in some cases, below the U. S. bottlers' *costs.*

Imports of bottled Spanish olives began as a trickle in late 1965, and are now flooding the United States. When this problem was brought to the attention of the United States Senate last fall, a Senate resolution requested the Tariff Commission to conduct an investigation of the olive industry under Section 332 of the Tariff Act of 1930. The Commission's report, issued in March 1967, found that Spanish-packed olives were being sold in this country in increasing quantities, at prices 8–18% below comparable U.S.-packed Spanish olives. It said, however, that this development was too recent to permit a prediction of its impact on the United States market. It should be noted that, despite rising bulk olive costs, prices of bottled imports were sharply reduced just as the Commission's investigation ended in March.

Since the Tariff Commission report, the trend has become more clearly unfavorable for the American industry:

(1) Although there was only one significant Spanish supplier at the time of the Tariff Commission investigation, another bottler has been exporting greatly increased quantities of bottled exports to the U.S. at very low prices since the investigation ended.

(2) U.S. import statistics for the first half of 1967 reveal bottled olives are being imported at a rate double last year's and many times greater than imports in earlier years.

(3) There is now evidence that injury, in the form of substantial losses of long-established customers and narrowed profit margins, is being inflicted on the U.S. bottlers.

Although the Spanish industry has not yet begun to process and can olives California-style, there is a very real threat that it will. It is already exporting such olives to other countries, and sample cans were sent to the U.S. several years ago.

The threatened impact of these developments on U.S. industry and agriculture is very serious. At stake are 2,000 jobs of American bottling employees; processing and bottling firms' capital investments of tens of millions of dollars in plants and equipment; at least 40 million dollars worth of investments in California olive groves; and the sole or principal source of income of 2,500 California olive growers and additional thousands of harvest workers. In addition, some 13 million dollars worth of annual business for American manufacturers of caps, bottles, cans, labels and other supplies are in jeopardy. If bottled and canned imports are not restrained, there will also be an outflow of dollars as a result of the higher prices paid for bottled imports and of investments in processing and packaging plants by U.S. firms forced out of business in the United States.

There is practically nothing the American olive industry can do to avoid these losses. It has already invested heavily in modern labor-saving equipment and plants. It cannot reduce U.S. wage rates to Spanish levels. Nor can it obtain the governmental subsidies and rebates which are available to Spanish bottlers. It cannot use much of its machinery for other purposes, since most was specifically designed or adapted for olive operations. Likewise, the land now used as olive groves in California is in many cases useless for other purposes.

In recognition of these harsh facts, Senators Dirksen and Kuchel and fifteen Members of the House of Representatives have recently proposed legislation to create an additional tariff category for olives imported in sealed containers holding less than 9½ pounds. The new tariff category would have a higher rate of duty (50% ad valorem) than the duties on bulk imports, which would continue at the present rates.

The proposed duty structure would give American olive bottlers the kina of protection which they would have received if there had been a Spanish packing industry when the Tariff Act was adopted in 1930. U.S. tariff schedules have always given such protection to American packers of many other products. The proposed 50% duty is actually less than enough to off-set completely the cost advantage of the Spanish bottlers over the U.S. importer bottlers.

This legislation would not take anything away from Spain which she now has. Spain's existing monopoly (97%) of the U.S. green olive market will not be affected since she will sell the same olives, which she had been exporting to the U.S. in bulk and which were bottled here. All the new tariff classification would do is to prevent Spain from using an anomolous, outdated tariff structure to destroy the American packing industry and to take over the market for ripe olives, which have always been supplied by California.

For the moment, the industry is counting on prompt enactment of the proposed tariff classification to save it. However, if this legislation is not enacted soon it may become necessary to request a quota to protect the industry from annihilation.

Statement by Leon B. Schachter, Vice President and Director of the Washington Office, Amalgamated Meat Cutters and Butcher Workmen (AFL-CIO), Concerning Imports of Brazilian Soluble Coffee

My name is Leon B. Schachter. I am a Vice President and Director of the Washington Office of the Amalgamated Meat Cutters and Butcher Workmen (AFL-CIO).

The Amalgamated Meat Cutters and Butcher Workmen is a labor union with 400,000 members organized in about 500 Local Unions throughout the United States and Canada. These members are employed in the food, leather and fur industries. Among the Amalgamated members employed in the food industry are more than 5,000 workers employed in coffee processing.

BRAZILIAN DISCRIMINATION

The present American production of soluble or instant coffee is threatened with extinction. Its problems are *not* due to any inability to compete in production or distribution with its chief competitor, the Brazilian instant coffee firms. Instead, the problems of American soluble coffee producers are due to the discriminatory policy used by Brazil in selling its green coffee as compared with its instant coffee in this country.

Many U.S. soluble coffee makers use Brazilian green coffee as their raw material. But to get the green coffee beans, they must pay a 19 cent a pound "contribution tax." It takes about three pounds of green coffee to make a pound of soluble coffee, so the American producer starts off with the cost of about 57 cents a pound in Brazilian taxes.

But when Brazil exports its soluble coffee to the U.S., it charges no "contribution tax" whatsoever. The Brazilian soluble coffee has at least a 57 cents a pound advantage to begin with.

In addition, Brazil permits its soluble coffee producers to use broken beans and other less expensive coffee raw materials to make its soluble coffee. But it does not allow this cheaper green coffee to be exported. In other words, the Brazilian soluble coffee industry can make economies which the American industry cannot.

Obviously, these discriminatory factors make Brazilian-produced soluble coffee much cheaper in comparison with the American-produced one. Brazilian soluble coffee firms have tremendous advantages in costs before production can even begin in this country.

SHARP RISE IN IMPORTS, SHARP LOSS OF EXPORTS

The result is that an increasing number of U.S. soluble coffee producers have cut back or given up on their production. They are instead importing the Brazilian soluble coffee.

Imports of Brazilian soluble coffee have sharply increased. In 1965, 2,838,803 pounds of soluble coffee were imported into the U.S. In 1966, imports nearly quadrupled to 10,533,000 pounds. In the first quarter of 1967 alone, 5,954,956 pounds were brought in. Virtually all of these imports come from Brazil.

At the same time, the American export of soluble coffee has been sharply reduced. In 1965, 12,112,459 pounds were sold abroad. In 1966, only 7,597,000 pounds were exported. And in the first quarter of 1967, only 1,551,520 pounds were shipped outside the U.S.

Efforts by the State Department to negotiate with the Brazilian government even to reduce this rank discrimination have been to no avail. Several attempts have absolutely failed. The Department apparently is unable to deal with the situation.

CONGRESSIONAL ACTION NEEDED

In the meantime, American production is slipping. Jobs are being lost. Other jobs are threatened. Unless relief is granted, the American soluble coffee production will completely disappear.

The hopes of the workers in this industry now rest on Congress. We therefore appeal to the Committee either to set a tariff on Brazilian soluble coffee which will

(1) Equalize the total effect of the "contribution tax" on the green coffee and the savings effected by the use of broken beans and other less expensive beans or

(2) Set a quota on instant coffee equal to the 1965 imports into the U.S.

Only such action can save the jobs of workers now employed in producing instant coffee in the United States.

[Telegram]

SAN JOSE, CALIF.

RUSSELL B. LONG,
Chairman, Senate Finance Committee, Washington, D.C.:

Reference hearings this week various import quota bills industrial items. U.S. National Fruit Export Council, Representing American fresh, dried and canned fruits, urgently request your careful consideration to impact of such legislation upon exports American fruit products. Quota systems bound to set off retaliation on part of countries now export outlets American farm product and could negate hard-won results of Kennedy round negotiations, destroy results of 30 years of efforts to encourage free trade, further depreciate our balance-of-payments position and create cleavage between industry and agriculture in world trade negotiations.

U.S. NATIONAL FRUIT EXPORT COUNCIL,
Santa Clara, Calif.

LAW OFFICES,
REEVES, HARRISON, SAMS & REVERCOMB,
Washington, D.C.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This letter is written on behalf of the Taiwan Mushroom Packers United Export Corporation (TMPUEC), whom I have the pleasure to represent. The TMPUEC is a trade organization comprising 75 canning firms in Taiwan, Republic of China, which are concerned with the canning and export of mushrooms from Taiwan to other parts of the world.

Some 40 to 45 percent of the total of canned mushrooms exported from Taiwan are sold in the United States. Accordingly, the various proposals for general import quota legislation which are presently before your Committee are of vital concern to the TMPUEC. It is realized that the Committee is primarily interested in the impact of import quotas on American firms and individuals, but we think that the Committee will welcome views of overseas producers exporting to the United States and appreciate this opportunity to state those views.

It is not clear from available information precisely what is proposed to be introduced by way of general import limiting legislation. It has been stated that the Committee is considering approving a legislative proposal which would authorize the imposition of import quotas or other import restrictions when the volume of imports should exceed 5 percent of domestic production of competing products. Presumably, the quota levels, once authorized, would also be related in some fashion to the 5 percent criterion.

Such would be indeed a stringent restriction. Such would require indeed a compelling justification, particularly in view of the damage to U.S. exports which would be certain to follow retaliatory measures by other affected countries.

In the case of canned mushrooms, no such compelling justification exists for limiting imports. Although the volume of imports from Taiwan have increased dramatically in recent years, the domestic canned mushroom industry has suffered no measurable damage from import competition.

From a very small beginning in 1961 imports of canned mushrooms from Taiwan have risen over the past six years to some 12.4 million pounds drained weight basis during the crop year (July 1–June 30) 1965/66. Imports from Taiwan during the last six months of 1966 indicate an annual rate for 1966/67 cropyear of approximately 13 million pounds. These quantities represent approximately 25 percent of total consumption of canned mushrooms in the United States.

Sales of domestically canned mushrooms according to the United States Tariff Commission on a crop-year (July 1–June 30) basis were as follows (millions of pounds, drained weight):

1959–60:	41.
1960–61:	41.
1961–62:	43.
1962–63:	44.
1963–64:	43.

Domestic production data for periods since 1964/65 are not available on the same statistical basis. The National Canners Association reports domestic production of canned mushrooms in a series based on a crop-year from October 1 through September 30, commencing with the year 1963/64. The National Canners' data indicate (millions of pounds, drained weight):

1963–64:	40.9.
1964–65:	44.4.
1965–66:	44.8.

However, seven of the large domestic packers included in the National Canners' statistical series also imported substantial quantities of canned mushrooms from Taiwan, which imports are included in the above pack figures. TMPUEC data indicate imports by these American packers to have been 4.2 million pounds during 1963/64: 2.4 million pounds during 1964/65; and an estimated 2.0 million pounds during 1965/66. Subtracting imports thus included in the National Canners' figures, the adjusted domestic pack figures are (millions of pounds, drained weight):

1963–64:	36.7.
1964–65:	42.0.
1965–66:	42.8.

The domestic pack from October 1, 1966 through April 28, 1967 is indicated at 26.8 million pounds, drained weight, which compares with 26.9 million pounds for the same period of the 1965/66 crop-year.

It can be seen from these over-all statistics that despite the rapid rise of imports of canned mushrooms from Taiwan to approximately 25 percent of the indicated total consumption in the United States, they appear to have relatively little impact on the level of the domestic pack. The domestic pack has continued to show a fairly constant rate of increase consistent with the rate of increase evident before the advent of imports from Taiwan. In addition, recent complicating factors such as substantial improvements of holding, transportation, and marketing facilities for fresh mushrooms have increased substantially the diversion of domestic mushrooms to the fresh market. Increasing quantities of mushrooms have also been diverted to a growing production of freeze-dried mushrooms and to various types of frozen fresh mushrooms and mushroom products.

There is thus no compelling justification to restrict the importation of canned mushrooms from Taiwan, either by way of quota legislation or by other import limiting authority.

We hope that the Committee will give serious consideration to the views expressed herein.

Yours very truly,

MYRON SOLTER,
Attorney for Taiwan Mushroom
Packers United Export Corp.

THE RICE MILLERS' ASSOCIATION,
Washington, D.C.

Hon. RUSSELL B. LONG,
Chairman, Senate Finance Committee,
Washington, D.C.

DEAR SENATOR LONG: The Rice Millers' Association is gravelv disturbed by the flood of protectionist trade legislation which is being proposed in the Congress.

The rice industry, the major agricultural industry in the State of Louisiana, depends on export markets for survival. Two-thirds of our rice production is exported. Approximately eighty percent of rice production in Louisiana goes to export markets. The rice industry stands to be seriously hurt by a rise in protectionism in the USA; inevitably, this will lead to retaliation in our commercial markets abroad.

The United States cannot "have its cake and eat it too." If we wish to sell our products abroad, we must give reasonable opportunity for other countries to sell to us. We urge that you and your Committee reject the heavy pressures that are building for legislation to restrict foreign trade.

Respectfully,

J. P. GAINES,
Executive Vice-President.

[Telegram]

STUTTGART, ARK.

Hon. RUSSELL B. LONG,
Chairman, Senate Finance Committee,
Washington, D.C.:

As a farmer cooperative representing 700 Arkansas rice farmers we hope your committee will reject pressures for tariff legislation that will restrict foreign trade. This will result in retaliatory measures and will seriously affect American agricultural sales. Please make this telegram a part of the record.

H. M. ALDERSON,
Secretary-Treasurer.
Producers Rice Mill, Inc..

STATEMENT OF THE ARKANSAS RICE GROWERS COOPERATIVE ASSOCIATION AND THE ARKANSAS GRAIN CORPORATION OF STUTTGART, ARK.

(Presented by L. C. Carter, Executive Vice President and General Manager)

I am L. C. Carter, Executive Vice President and General Manager of The Arkansas Rice Growers Cooperative Association and the Arkansas Grain Corporation, Stuttgart, Arkansas.

The two organizations I represent are farmer cooperatives engaged in the processing and marketing of rice and soybeans in domestic and export markets. Their membership consists of approximately twenty-five thousand farm families, who are rice and soybean producers. These two organizations marketed sixty million bushels of rice and soybeans, last year.

The subject of international trade is of the utmost importance to the membership of our organizations. Annually, approximately 50% of the rice and soybeans produced by our membership is exported to foreign consumers. Nationally, 65% of our Nation's rice production and 45% of the United States' soybean production are consumed by foreign countries.

These export markets have been carefully developed over a long period of time and are the basis of our agricultural economy.

We sincerely feel that any legislation effecting free trade, with our foreign customers, would be a serious and damaging blow to the relationship we now enjoy.

American agriculture, the envy of the world, can only exist by the continuation and expansion of foreign trade and it would be foolish to suppose that restrictions on products of a United States agricultural customer would not invite retaliatory measures.

American agriculture is the largest single customer of American industries. Farmers are major purchasers of steel, petroleum, petroleum products, rubber, chemicals, and many other items. Millions of American citizens are employed to supply American farmers with items needed to efficiently produce their crops. We must realize that, if farmers are to buy from American industry, they must also be permitted to sell the products from their farms wherever markets can be found. The foreign demand for American agricultural products has doubled in the past ten years and accounts for the production from one out of every four acres.

In our state, in recent years, one-half of Arkansas' rice, soybeans, and wheat has moved into foreign markets.

Sales of farm products, in world markets, have enabled farmers to expand their farming operations and to purchase the necessary equipment for mechanization, which enables them to more efficiently produce agricultural products and thereby make a major contribution to American economy. At the same time, they provide food and fiber, which allows the citizens of our country to be the best fed and best clothed in the world.

Foreign trade is important to rice and soybean producers—it is important to our nation.

We are unalterably opposed to any proposal, which would invite retaliatory restrictions by present foreign customers or hinder the development of new markets.

Export markets are too important to American agriculture to take any chance, which might jeopardize our present relationship and trigger an agricultural depression in our country, as a result of losing these markets.

CORN REFINERS ASSOCIATION, INC.,
Washington, D.C.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance, U.S. Senate,
Washington, D.C.

DEAR SENATOR LONG: We applaud the Committee on Finance's interest in examining the impact of unrestrained imports on the well-being of our domestic commerce and industry.

The corn starch industry I represent has long contended with duty-free imports of tapioca starch. Imports of this tropical commodity more than doubled between the years of 1962 and 1965. This growth—and the prospect of unbridled future growth—has been a source of great concern not only to the domestic starch industry, but to its thousands of employees at fourteen corn refining plants in Illinois, Indiana, Iowa, Missouri, Michigan and Ohio.

The United States' traditional duty-free treatment of tapioca starch is an anachronism today. Virtually every other developed nation of the world pursues protectionist policies which effectively limit tapioca starch imports in order to preserve the viability of their domestic corn, potato and wheat starch industries. Since the United States has not chosen to do this, tapioca starch-producing countries look chiefly to the United States for increased market penetration.

Unless a parity of treatment for tapioca starch can be achieved, tapioca starch will continue to flow into the least protected markets and the United States will increasingly come to rely on foreign starches despite an abundance of native starch-containing commodities.

The average 56-pound bushel of corn of 17 percent moisture content contains approximately 31.0 pounds of recoverable starch, of which about 40 percent is not converted to corn sweeteners (corn syrup and corn sugar) but is marketed as dry starches and dextrins in direct competition with tapioca starches. Annual imports of 350 million pounds of tapioca, which has been the average level of the last three years, correspond roughly to the total recoverable starch content of 10 to 12 million bushels of corn. However, because tapioca starch is not in competition with the corn sweetener output of this industry, the actual displacement of corn as a starch source with tapioca starches is roughly two and one-half times this bushel equivalency. Another way to characterize this import is to relate it to the starch output of one medium-sized corn refining plant. Unlike the domestic plants of our industry, however, this "foreign starch plant" which tapioca imports represent enjoys free access to U.S. starch markets without being required to pay comparable taxes, wage rates or other U.S. business costs. In our view, the growth of food and industrial uses of corn starch is severely handicapped by increased tapioca imports.

Nations which now export tapioca starch are capable of vastly expanding their production. Other tropical nations, encouraged by their success, will be tempted to join them, for tapioca (known variously also as cassava, yucca or manioc in various parts of the tropical world) can be grown readily in many tropical areas.

Were all developed nations to have a somewhat uniform trade policy on tapioca, the problem would be less severe. In the absence of this condition, however, American starch manufacturers are extremely vulnerable to any worldwide increase in the production and export of tapioca.

In testimony before the Subcommittee on Foreign Economic Policy of the Joint Economic Committee on July 12, 1967, Anthony M. Solomon, Assistant Secretary of State for Economic Affairs, said this of the United States foreign trade policy and the developing countries:

"The fundamental answer to the trade problems of the developing countries is to diversify their output and their exports and thus reduce their excessive dependence on a few traditional commodities."

Excessive reliance upon any single commodity or importing nation as a market would not be in the best interest of a producing country.

As a correlary to this, any orderly transition into the full-fledged trade preference policies which are now acknowledged as prerequisites for proper growth of the developing nations must be combined with a strong effort to involve *all* developed nations in the granting of the trade preferences thought necessary. As long as the United States fails to exact concomitant accommodations from the other developed nations, its policies will contribute to the retarding of both domestic industry and the proper trade growth of the developing nations involved with us.

Tapioca imports for the years 1962 through 1966 averaged 280.12 million pounds. This was nearly five times the level of a decade and a half ago. Tapioca imports for the last three years are approximately 25 percent greater than this most recent five-year average. It is for these many reasons that we would support legislation that would limit imports of tapioca.

Sincerely,

ROBERT C. LIEBENOW, *President.*

IMPORT QUOTAS LEGISLATION

THURSDAY, OCTOBER 19, 1967

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

The committee met, pursuant to recess, at 10:05 a.m., in room 2221, New Senate Office Building, Senator Russell B. Long (chairman) presiding.

Present: Senators Long, Anderson, Talmadge, McCarthy, Harris, Williams, Carlson, Bennett, Curtis, and Dirksen.

The CHAIRMAN. This hearing will come to order.

This morning the committee continues its hearing into the question of import quotas on various commodities. Today, we will hear spokesmen from the oil industry, the shoe industry, and the lead and zinc industry.

We have a long list of witnesses to hear today, and I would hope that all witnesses will keep their oral statements within the limits that have been allotted to them.

We want to express the appreciation of the committee to the many persons who requested time to testify, but who willingly agreed to coordinate their oral statements with other witnesses in order to conserve the time of the committee. I might add that all of these persons have been invited to submit written statements to the committee in lieu of a personal appearance. Those statements should be received by the committee by the close of business tomorrow, to assure that they will be included in the printed volume of the hearings.

Our first witness this morning is the junior Senator from New Mexico, the Honorable Joseph M. Montoya. Senator Montoya, the last time you testified before our committee, I believe we were taking testimony on your bill to provide veterans benefits for veterans of the Vietnam era. It was a good piece of legislation and we commend you for the fine work you did on behalf of our servicemen. I understand that you want to talk today about the problem that is confronting the potash industry. We will be happy to hear you.

A bill, S. 2551, to impose annual quotas on the quantity of potassium chloride or muriate of potash which may be imported into the United States, follows:)

POTASH IMPORTS*

90TH CONGRESS
1ST SESSION

S. 2551

IN THE SENATE OF THE UNITED STATES

OCTOBER 18, 1967

Mr. MONTOYA (for himself and Mr. MOSS) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To impose annual quotas on the quantity of potassium chloride or muriate of potash which may be imported into the United States.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) the total quantity of potassium chloride which may be imported into the United States during the calendar year 1968 or any subsequent calendar year shall not exceed a quantity equal to 25 per centum of the estimated United States consumption of potassium chloride for such calendar year.

(b) For purposes of this Act, the term "potassium chloride" means potassium chloride or muriate of potash

II

*Witness testifying on this subject, pp. 218–229.
Communications received by the committee on this subject, pp. 227–230.

provided for in item 480.50 of the Tariff Schedules of the United States.

SEC. 2. (a) The Secretary of Agriculture shall, before the begining of the calendar year 1968 and each subsequent calendar year, estimate the United States consumption of potassium chloride for such calendar year. The Secretary may, from time to time during any calendar year, revise his estimate of United States consumpiion of potassium chloride for such year. The Secretary shall publish his estimate for each calendar year and any revised estimate for such year in the Federal Register.

(b) The President shall by proclamation limit the total quantity of potassium chloride which may be entered, or withdrawn from warehouse, for consumption during the calendar year 1968 and each subsequent calendar year, to the quantity prescribed for such year under the first section of this Act based upon the estimates, or revised estimates, made by the Secretary of Agriculture for such year under subsection (a). In any case in which any revised estimate results in a quantity of potassium chloride which may be imported into the United States during a calendar year which is lower than the quantity resulting from the original estimate or a previous revised estimate for such year, the total quantity of potassium chloride which may be imported during such year shall not be less than the quantity actually imported on or before the date on which the Secretary of Agriculture publishes such revised estimate.

SEC. 3. The Secretary of Agriculture shall allocate the total quantity of potassium chloride which may be imported into the United States during any calendar year among supplying countries on the basis of the shares such countries imported into the United States during a representative period selected by the Secretary, except that due account may be given to special factors which have affected or may affect trade in potassium chloride. The Secretary of Agriculture shall certify such allocations to the Secretary of the Treasury.

SEC. 4. (a) The Secretary of Agriculture shall issue such regulations as he determines to be necessary to carry out, and to prevent circumvention of, the purposes of this Act.

(b) All determinations by the Secretary of Agriculture under this Act shall be final.

STATEMENT OF HON. JOSEPH M. MONTOYA, U.S. SENATOR FROM THE STATE OF NEW MEXICO

Senator MONTOYA. Thank you, Mr. Chairman, members of the committee.

First, I want to thank you for the opportunity to appear before you in support of legislation to impose a quota on imports of potash. I realize that you do have a limited time in which to hear a long list of witnesses on other import quota bills, so I will try to be brief in my comments, Mr. Chairman.

Knowing of the heavy schedule of witnesses, I would not have imposed upon you to permit me to testify if it had not been for the gravest of circumstances. However, our domestic potash industry presently stands at the threshold of complete annihilation if this Congress does not come to its aid.

This is not an overstatement, Mr. Chairman. This fact could not have been any more emphasized than by the dramatic announcement by one of the largest of our domestic potash producers, U.S. Borax and Chemical Corp. Only Monday of this week it announced that in a few days it would be closing down its domestic operations in New Mexico and moving to Canada. This announcement laying off approximately 900 workers was a tremendous shock to an economy that was still reeling from a similar announcement by the International Minerals & Chemical Corp. which earlier had laid off some 350 workers in Carlsbad, N. Mex. What do these two dramatic examples mean? Let me put it in the proper perspective.

The CHAIRMAN. How many workers did you say you lost in Carlsbad?

Senator MONTOYA. We have lost to date 1,250 workers with the recent announcement.

Now, the domestic potash industry in this country has always been healthy. We have had no problems meeting our needs. However, the potash industry in this country is unique in that approximately 95 percent of domestic production comes from New Mexico. And most of this is from the Carlsbad, N. Mex., area. Utah and California are now developing potash production. Thus, anything that affects the potash industry in New Mexico affects the potash industry in the United States.

Our potash industry in New Mexico employs approximately 4,000 workers. It pays approximately $10 million in taxes a year, of which about $5 million are in Federal royalties. I refer you to appendix 1 for a breakdown of these taxes and other assessments paid. The New Mexico potash industry has a payroll of $25 million a year. It has in-State purchases of $25 million a year and pays $65 million in freight charges per year. Its gross sales are $115 million a year, and it has a capital investment of $200 million a year.

I should add that domestic assessments are channeled primarily into the New Mexico educational system and are thus a principal source of revenue for maintaining our schools. Thus, any reduction of these assessments would be immediately felt in an area which is of vital concern to us all.

It should at once become apparent what effect the laying off of 350 workers by IMCC and then 900 more by U.S. Borax is having on a domestic industry that employs a total of 4,000 workers. The combined layoffs of approximately 1,250 represent over 30 percent of the total working force engaged in this industry.

Consequently, we have a chain reaction, a decrease in domestic production, a loss of domestic employment, a loss of revenue domestically, and, eventual destruction of a domestic industry.

I think the immediate question that must come to your minds is, "What is the cause behind this concern?" The cause behind this concern can be summarized in one phrase: a tremendous increase in imports in recent years.

I refer you to appendix 5, which shows a year-by-year analysis of imports of potash for the years 1960 through 1966. Total foreign imports have jumped from 9 percent of domestic consumption in 1960 to over 38 percent in 1966. This is not our complete answer, however, for it is interesting to note further that imports excluding Canadian imports have remained relatively constant. They total around 200,000 tons per year. However, Canadian imports have jumped dramatically from 2 tons in 1961 to 1,209,503 tons in 1966.

The figures which I am quoting here are with reference to what is known in the parlance of the trade as K_2O. This is the oxide content of the mineral. The mineral itself is known as potassium chloride (KC_1). Mining companies strive for a product that contains 60 percent oxide content.

Why have we had such an increase in Canadian imports? In recent years new discoveries of potash resources in Canada have catapulted that country into world leadership in this industry. Taking into consideration only those plants now in production, or actively under development and construction, it is estimated that Canadian capacity for production of potash by 1970 will reach 12.1 million tons of product. In the language of the trade this would amount to about 7.6 million tons of K_2O, its oxide content. I refer to to appendix 2 for a listing of companies with interests in Canada. Yet Canada, itself, has a domestic consumption capacity of less than 3 percent of its own production capabilities projected for 1979.

With these vast resources at hand, the Canadian Government has held out an inducement to mining companies in the form of a 3-year tax holiday that has now been extended. With this inducement the very same American companies that have been devoting their efforts in the Carlsbad mines have started to move their operations to Canada. Slowly but surely, as these companies get their operations going in Canada, they are phasing out their domestic mining operations in Carlsbad.

As I pointed out earlier, we have had two shining examples of this abandonment in recent weeks, with first the IMCC laying off some 350 workers, and then the U.S. Borax announcing imminent release of an additional 900 workers, and other companies will follow suit.

Mr. Chairman, the potash industry is an industry vital to America. It is in our national interest, and to protect our national security, that I come to you today to ask that we come to the aid of this industry. Our vast present-day agricultural production depends on three forms of fertilizer elements, namely nitrogen, phosphate, and potash, used sometimes singly but mostly in various forms of combinations according to the soils of the regions of our Nation. Of the three, potash is the only ingredient that is in present danger.

Without the insurance of a domestic supply of potash, our modern-day agriculture would become completely dependent on foreign countries for its fertilizer needs. This is a proposition too disquieting to contemplate. But, it is a proposition that can very well become a reality if we do not act to protect our domestic supply. Estimates are that by 1970 or 1971, the worldwide production capability will far exceed worldwide consumption. In fact, as appendix 7 will show us, by 1971 the Carlsbad operations could be completely shut down and worldwide needs would still be supplied by other countries without strain. The point I wish to make here is that if we here in Congress do not act to protect our own domestic potash industry, we might as well forget about having a domestic potash industry.

Mr. Chairman, my appearance here this morning is as a last resort. The New Mexico congressional delegation has attempted to work through the existing administrative procedures only to be told by the U.S. Tariff Commission that because Canadian imports are duty free, there is nothing the Tariff Commission can do. Canada sought, and received, a duty-free concession on potassium chloride and muriate of potash from the United States in 1947 during the General Agreement on Tariffs and Trade (GATT) negotiations. No new additional binder was negotiated during the Kennedy round, but the 1947 GATT binders continue. Thus, we are left with the necessity to look to the National Legislature for relief.

I know there will be a reluctance on the part of some to move ahead on import quota legislation because the United States, as a signatory of the General Agreement on Tariffs and Trade (GATT), has to abide by its commitment not to impose tariffs on duty-free imports. However, without some relief, our domestic potash industry will soon disappear. This is a plea for survival and not a plea for protection.

After much consideration, I introduced yesterday in the Senate, a bill, S. 2551, which would impose a quota on imports of potash for any calendar year of not to exceed 25 percent of the estimated U.S. consumption of potash for such calendar year. I have attempted to propose a quota which would not only meet our domestic needs, but which would take into consideration needs of our foreign friends. This bill is an attempt to be fair in all respects.

If we look at the average per year imports for the past 7 years (1960 through 1966), we find that the average per year of imports came to approximately 23 percent of average per year domestic consumption. I refer you to appendix 5. Thus, my measure would allow imports in excess of the average annual imports for the last 7 years.

My bill would give to the Secretary of Agriculture the authority and duty to estimate the U.S. consumption of potassium chloride for each calendar year beginning with calendar year 1968, prior to the beginning of each calendar year. On the basis of these estimates the Secretary shall make the necessary allocations to the respective countries to insure that imports shall not exceed 25 percent of domestic consumption. These allocations shall be made on the basis of shares such countries imported into the United States during a representative period selected by the Secretary.

My bill is flexible in that the Secretary is given authority to revise his estimates of domestic consumption from time to time as the need arises.

Mr. Chairman, members of the committee, in the interest of saving time, I have tried to be brief in this statement, but at the same time to present the salient facts. I have a number of tables and charts to which I have referred in my statement which graphically depict the problem confronting our domestic potash industry. I ask that they be made a part of the hearing record at the end of my formal statement.

Senator MONTOYA. I also ask that a more detailed explanation, which I made on the Senate floor in introducing my bill yesterday, be printed in full following these appendixes.

Mr. Chairman and members of the committee, I appeal to you on behalf of a dying domestic potash industry to come to its rescue by enacting this most necessary bill limiting imports of potash. Thank you very much for your time.

(The charts and statement referred to follow:)

APPENDIX 1.—*Potash taxes paid to State of New Mexico in 1966*

Local and state taxes and royalties borne by the potash industry total more than 10 million dollars annually. For the calendar year 1966, the potash industry paid the following amounts:

Gross receipts tax (on sales)	$802, 905
Sales tax (on purchases)	758, 306
Compensating tax (on purchases)	143, 862
Ad valorem tax	2, 079, 476
Royalties	5, 066, 891
Mineral lease	500, 821
Occupation tax	25, 842
State income tax	212, 741
Severance tax	497, 498
Total	10, 088, 342

APPENDIX 2

BOX SCORE OF POTASH OPERATIONS IN CANADA[1]

	Output (tons per year)	Capital cost	Production start	Shafts
Operating:				
International M. & C., K-1	2, 000, 000	$65, 000, 000	September 1962	1
Kalium Chemicals	600, 000	50, 000, 000	September 1964	None
Potash Co. of America	600, 000	45, 000, 000	April 1965	1
Total	3, 200, 000	160, 000, 000		
Under construction:				
Allan Potash	1, 500, 000	70, 000, 000	Summer 1967	2
Alwinsal Potash	1, 000, 000	50, 000, 000	Early 1968	1
Cominco Potash	1, 200, 000	65, 000, 000	Late 1969	2
Duval Corp	1, 000, 000	63, 000, 000	Early 1969	2
International M. & C., K-2	1, 500, 000	60, 000, 000	Early 1967	1
Noranda Potash	1, 200, 000	73, 000, 000	Early 1969	2
Southwest Potash	1, 500, 000	60, 000, 000	Early 1970	2
Total	8, 900, 000	441, 000, 000		
Grand total	12, 100, 000	601, 000, 000		

[1] The Northern Miner, July 14, 1966.

Note: Potash Co. of America is planning a 2d shaft on which work is to commence early next year. International Minerals & Chemical Corp.'s K-1 and K-2 shafts connect underground. Alwinsal Potash expects to start sinking a 2d shaft shortly after production attained.

APPENDIX 3

U.S. DOMESTIC CONSUMPTION OF POTASH

	Product (tons (KCl) [1])	K_2O [2] (tons)	Percent change over prior year
Year:			
1960		2,119,397	([3])
1961	3,911,896	2,054,097	−3.1
1962	4,248,931	2,342,876	+14.1
1963	4,293,141	2,645,040	+12.9
1964	4,820,741	2,935,989	+11.0
1965	4,692,760	3,141,856	+7.0
1966	4,931,686	3,810,531	+21.3
Total	26,898,155	19,049,786	

[1] Measured in terms of the mineral known as potassium chloride (KCl). Source for figures is the A.T. & S.F. Railroad Co.

[2] Measured in terms of the oxide content (K_2O). Pure sylvite, or pure muriate of potash, contains 63.2 percent of K_2O. Mining companies strive for a product containing a minimum of 95 percent sylvite (KCl) which then contains over 60 percent K_2O equivalent, the usual minimum standard. Source for figures is the American Potash Institute.

[3] Base year.

Note: Average increase per year over base year of 1960 averages 13 percent per year.

APPENDIX 4.—*U.S. domestic production capacity of potash* [1]

Year:	*K_2O [2] tons*
1960–64	2,800,000
1965	2,875,000
1966	3,400,000

[1] U.S.D.A. Publication "The Fertilizer Situation 1963–64, 1964–65, 1965–66" (Production Capacity for 1960 through 1963 assumed to be the same as 1964). The published figures have been reduced by 200,000 K_2O tons to reflect the net production capacity of K_2O as potassium chloride.

[2] Measured in terms of the oxide content (K_2O). Pure sylvite, or pure muriate of potash, contains 63.2% of K_2O. Mining companies strive for a product containing a minimum of 95% sylvite (KCl) which then contains over 60% K_2O equivalent, the usual minimum standard.

APPENDIX 5

U.S. IMPORTS OF POTASH [1]

	Canada			Other imports		
	KCl [2] tons	K_2O [3] tons	Percent of domestic consumption	KCl [2] tons	K_2O [3] tons	Percent of domestic consumption
Year:						
1960	6,717	4,030	([4])	321,992	193,195	9
1961	3	2	([4])	331,901	199,141	10
1962	76,395	45,819	2	386,734	232,040	10
1963	563,344	338,006	13	313,192	187,915	7
1964	837,357	502,414	17	358,360	215,016	7
1965	485,148	891,089	28	295,133	177,080	6
1966	2,015,838	1,209,503	32	366,383	219,830	6

TOTAL IMPORTS

	KCl [2] tons	K_2O [3] tons	Percent of domestic consumption
Year:			
1960	328,709	197,225	9
1961	331,904	199,143	10
1962	463,129	277,859	11
1953	876,536	525,921	20
1964	1,195,717	717,430	24
1965	1,780,281	1,068,169	34
1966	2,382,221	1,429,333	38
Total	7,358,497	4,415,080	[5] 23

[1] American Potash Institute.

[2] Measured in terms of the mineral known as potassium chloride (KCl).

[3] Measured in terms of the oxide content (K_2O). Pure sylvite, or pure muriate of potash, contains 63.2 percent of K_2O. Mining companies strive for a product containing a minimum of 95 percent sylvite (KCl) which then contains over 60 percent K_2O equivalent, the usual minimum standard.

[4] Less than 1 percent

[5] Over the 7 years from 1960 to 1966, the total imports of K_2O into the United States averaged approximately 23 percent of our domestic consumption for those 7 years.

APPENDIX 6.—*Canadian consumption of potash*[1]

Year:	K_2O[2] *tons*
1960	100,880
1961	105,951
1962	105,282
1963	121,909
1964	154,663
1965	185,021
1966	197,062

[1] American Potash Institute.

[2] Measured in terms of the oxide content (K_2O). Pure sylvite, or pure muriate of potash, contains 63.2% of K_2O. Mining companies strive for a product containing a minimum of 95% sylvite (KCl) which then contains over 60% K_2O equivalent, the usual minimum standard.

APPENDIX 7

WORLDWIDE POTASH PRODUCTION CAPABILITY VERSUS CONSUMPTION

	World production capability (including Carlsbad production)[1]	World consumption[1]	Excess capability over consumption[1]	Carlsbad production capability
Year:				
1960	8,500,000	8,500,000		[2] 4,200,000
1961	9,500,000	9,500,000	None	[2] 4,200,000
1962	10,000,000	10,000,000	None	[2] 4,200,000
1963	10,500,000	10,500,000	None	[2] 4,200,000
1964	12,000,000	12,000,000	None	[2] 4,200,000
1965	13,000,000	13,000,000	None	[2] 4,500,000
1966	15,000,000	14,000,000	1,000,000	[2] 5,100,000
1967	16,000,000	15,000,000	1,000,000	([3])
1968	17,000,000	15,200,000	1,800,000	([3])
1969	18,500,000	16,000,000	2,800,000	([3])
1970	20,500,000	17,000,000	3,500,000	([3])
1971	25,000,000	18,500,000	6,500,000	[2] 6,500,000

[1] Chemical Week, July 2, 1966. Measured in terms of the mineral known as potassium chloride (KCl). Pure sylvite, or pure muriate of potash, contains 63.2 percent of K_2O the oxide content. Mining companies strive for a product containing a minimum of 95 percent sylvite (KCl) which then contains over 60 percent K_2O equivalent, the usual minimum standard.

[2] Estimated.

[3] Not available.

POTASH IMPORT QUOTA BILL

Mr. MONTOYA. Mr. President, there exists a situation in the State of New Mexico that is bad now, and getting worse almost daily. I refer to the condition of the potash industry in my State, which is reeling from a series of body blows caused by unlimited dumping of foreign-produced potassium salts.

The human cost being paid by the citizens of New Mexico whose fate and future is bound up with our potash industry is appalling. This is an important enterprise that has long been most productive and essential to the well-being of the economy of our State, our Nation, and the lives of those who manned the industry.

It is heartrending to see mine closings come in dizzying succession, with each one striking at the lives and futures of hundreds of our people. These are hardworking, contributing citizens, American workers, who have been responsible for a substantial contribution over the years to the might of this Nation's economy. They have been a major segment of the economic backbone of New Mexico.

These men and women prefer to work rather than to complain. They do not ask for preferred treatment. Rather they ask that we give their honest complaints a fair hearing and decide on the merits what should be done.

I am sure you are all well aware of what has happened in other areas of the Nation and to other American industries. Competition is one thing, but ruinous dumping is another.

It behooves us to honestly stand up for American industry and the American worker. I am not advocating a narrow, isolationist type of protectionism that is akin to the policies of the gilded age of long ago. But I am speaking out in order to obtain for our people what foreign competitors are already practicing—enlightened self-interest on behalf of industries that produce goods and employ workers. The potash industry of New Mexico needs that help and needs it soon.

Mr. President, I, therefore, today introduce for reference to the Senate Finance Committee, a bill which would impose a much needed control on the ever-increasing and potentially disastrous imports of potassium chloride into the United States.

On June 23, 1967, I expressed my concern here on the Senate floor about the adverse effects excessive importation of potash is already having on our national production of potash. Over the last few years we have seen imports of potassium chloride rise from 9 percent of our domestic consumption in 1960 to over 38 percent in 1966. The frightening aspect is that indications are this trend will continue until our domestic potash industry is pushed out of existence.

An article in the Northern Miner on July 14, 1966, highlighted the threat to domestic production by our neighbor to the north, Canada. The article, entitled, "Potash Mining; Canada Leaps to World Leadership" brought home the point that plants now in production in Canada, or actively under development and construction, are estimated to have a capacity for production of potash by 1970 of 12.1 million tons of product or, in the parlance of the trade about 7.6 million tons of K_2O equivalent. I ask unanimous consent to have printed in the RECORD at this point a "Box Score of Potash Operations" from that issue showing the Canadian operations. (See p. 221.)

This situation is of particular concern to me because of its immediate effect on a principal industry of New Mexico. The seven or eight major American suppliers of potash have for years mined this mineral in the area of Carlsbad, N. Mex. This industry has become so important to us that anything that would affect its prosperity, would also have serious impact on the economy of my State as a whole.

Recently the International Minerals & Chemical Corp. laid off 350 workers in Carlsbad. An even more crippling blow came yesterday when the U.S. Borax & Chemical Corp., which had originally scheduled to close down its operation by early 1968, throwing 900 more employees out of work, announced that it had revised its schedule and will now close down by early November of this year. That is, within the next few weeks or even days.

In an industry which employs a total of 4,000 workers, these layoffs are disastrous—they represent over 30 percent of the total working force employed in the mining of domestic potash. This is a circumstance which we cannot put up with, and unless this Congress acts, and acts quickly, we can expect this trend to continue. It is imperative that we act expediently.

I call attention to the following statistics which show the importance of this industry to the State of New Mexico specifically and to the United States in general. (See p. 221.)

Mr. President, I ask unanimous consent to have inserted in the RECORD at this point a series of tables which will portray graphically the serious crisis which our domestic potash industry confronts. These tables show the number of product tons of the mineral known as potassium chloride—KCl—and of its oxide content known as K_2O. Pure sylvite, or pure muriate of potash, contains 63.2 percent of oxide content—K_2O. Mining companies strive for a product containing a minimum of 95 percent sylvite—KCl—which then contains over 60 percent K_2O equivalent, the usual minimum standard. (See p. 222.)

These tables show us at once the problems which our domestic potash industry is facing. In 1966, for example, our domestic consumption measured in K_2O tons was approximately 3.8 million tons. The domestic production capacity of K_2O was 3.4 million tons. Thus, there existed theoretically a gap of 0.4 million tons which our domestic industry could not support and which would have to be imported. However, our imports for 1966 in fact totaled not 0.4 million tons, but 1.4 million tons of K_2O; or measured in terms of product tons, 2.4 million tons.

Table No. 3 shows us the steady encroachment which imports have been making into our domestic market, and especially the Canadian imports. The Canadian imports have risen from less than 1 percent of domestic consumption in 1960 and 1961, to over 32 percent of domestic consumption in 1966. Total foreign imports have risen from 9 percent of domestic consumption in 1960 to over 38 percent in 1966. It is interesting to note further than imports from all countries other than Canada have remained relatively constant, totaling around 200,000 K_2O tons per year, while the Canadian imports have jumped from 2 K_2O tons in 1961 to 1,209,503 K_2O tons in 1966.

Why does Canada rely so much on the United States as an export source? First of all, as table 4 will verify, Canada's domestic consumption is running at less than 200,000 K_2O tons per year while its production potential, as I mentioned earlier, will soon be approximately 7.6 K_2O tons per year. Thus, Canada has little or no domestic market to speak of and must look elsewhere for its market. The

United States is a prime target because these imports of potassium chloride into the United States are duty free.

Can not these problems be handled administratively? Mr. President, I sincerely wish that they could. However, I have called upon the U.S. Tariff Commission seeking relief for our domestic potash industry to no avail. The Tariff Commission replied to my appeal in these words:

"A careful consideration of the circumstances stated in your letter does not suggest any provision of law administered primarily by the Tariff Commission under which import restrictions could be imposed on the imports in question, and, of course, the Commission is not a rate-making agency."

The New Mexico delegation also called upon the U.S. Treasury Department, Bureau of Customs, to investigate possible violations of the Antidumping Act, 1921, as amended, of potassium chloride. After a summary investigation in this matter, the Bureau of Customs informed me on September 6, 1967, that the Bureau was instituting an antidumping proceeding to ascertain whether this merchandise is being imported at less than fair value within the purview of the act. We are still awaiting the results of this investigation.

I know that there will be a reluctance on the part of some because the United States, as a signatory of the General Agreement on Tariffs and Trade—GATT, has to abide by its commitment not to impose tariffs on duty-free imports. And imports of potash—in the form of potassium chloride and muriate of potash, TSUSA No. 48050—are duty free.

However, with the uncontroverted facts as detailed above, imports of low-cost potash are going to continue to increase at an injurious rate to our domestic industry if they remain unabetted. While a comprehensive study of the rate structure for shipments of potash within and to the United States has been available, a preliminary review indicates that the only three States in the United States where New Mexico potash can compete pricewise with Canadian imports are in the States of New Mexico itself, Texas, and Oklahoma. All the other 47 States can acquire their potash cheaper from Canadian sources.

It may be contended that exporters of potash will retaliate by instituting other barriers to our trade should we invoke a limited country quota on imports of potash. This is a problem, however, which we should be prepared to meet headon. We should by all means abide by our commitments, but we should not bury our heads in the sand while a domestic industry is destroyed by circumstances which were not prevalent when the United States entered into its commitment to allow duty-free imports of potassium chloride.

Who can say that we must remain blind to radically changed conditions, conditions which were certainly not contemplated in 1947 when Canada sought this duty-free concession on potash in GATT.

This Congress would be lax in exercising its duty should it turn its back on a struggling domestic industry which is struggling simply because of U.S. concessions to our foreign friends.

This Congress and the 89th Congress will be remembered for their efforts to stimulate economic development in this country. This is difficult to explain to the citizens of the Carlsbad, N. Mex., area, however. Because of our trade policies, hundreds of men have been laid off in the Carlsbad mines, hundreds of others have been affected because of the reduced purchasing power of these miners, and as a result, the Economic Development Administration on September 21, 1967, declared the Carlsbad area a redevelopment area.

Thus, we in New Mexico have witnessed economic development in reverse: a viable economy has now become a weak one, an economy struggling for survival, an economy which the Federal Government must now try to nourish back to health. But this assistance will not be necessary if we will but give our domestic industry a chance by enacting this quota legislation which I am introducing today.

In closing, I would like to point out to our foreign friends who have been relying on the United States for their potash market that this legislation has taken their needs into consideration and is an attempt to be fair. This legislation does not impose a stringent quota but instead imposes a very realistic quota.

If we look back to table No. 3 above we will see that the imports for the years 1960 to 1966 totaled to over 4.4 million K_2O tons. Table 1 shows us that our total domestic consumption for these 7 years amounted to roughly 19 million K_2O tons. Thus, for these 7 years, the percentage of imports to domestic consumption was an average of 23 percent. The bill which I introduce today would permit imports up to 25 percent of domestic consumption, a full 2 percent over the average for the last 7 years.

As I have said, taking all factors into consideration, I have tried to fashion a bill which would take into account the needs of our foreign exporters but at the same time a bill which would provide the protection which is most essential if we are not to see our national security threatened by having a vital domestic industry destroyed.

I urge my colleagues in the Senate Finance Committee and in the Senate to give this measure early and favorable consideration.

The CHAIRMAN. Thank you, Senator Montoya. You know, you have a relative on television every Sunday night who is well regarded. He is getting to be as well known as you are, Senator.

Senator MONTOYA. I think he is getting better known than I am.

The CHAIRMAN. Well, now, we heard the Cabinet Secretaries yesterday telling us that we would be breaking our agreement under the General Agreement on Tariffs and Trade if we imposed any quota to protect our domestic industry. Now, these people who signed that agreement with us have ways to protect their industries that do not violate that agreement. For example, after they agreed that they would reduce tariffs and we would reduce tariffs to expand trade, they impose a border tax on our commodities coming in.

Now, you explain to me what is the difference between a border tax and a tariff?

Senator MONTOYA. Well, they both will hinder imports into their countries and I see very little difference. Now, with respect——

The CHAIRMAN. In other words, as far as you are concerned, would it make much difference to you whether we saved your industry by means of a border tax or variable levy instead of a quota?

Senator MONTOYA. No, because it would have the same effect.

The CHAIRMAN. In other words, if it achieved the same result, it would be all right with you.

Senator MONTOYA. That is correct.

The CHAIRMAN. If you put the tariff high enough, or if you had this variable levy scheme and put it high enough so that it saved the domestic industry, as far as you are concerned that would be all right.

Senator MONTOYA. Yes. Now, another thing I want to observe in that light, Mr. Chairman, is that I have been in the Congress 12 years and I have been very interested in protecting in some measure our domestic industry, and during those 12 years I have never seen or heard the State Department come before a congressional committee to plead the cause of domestic industry. Always foreign producers. And that consistency draws my suspicion all the time as to whether or not it is in the national interest.

The CHAIRMAN. Senator Anderson?

Senator ANDERSON. I am just very glad Senator Montoya has presented this. We have all been working on it and some day we will have to have some results. I think we will have to have some on lead and zinc as well, to protect the domestic industry.

The CHAIRMAN. Senator Williams?

Senator WILLIAMS. Senator Montoya, you made an excellent statement here but I am sure you are aware of the situation where our committee nor the Senate can report a bill, Senate bill, dealing with import quotas or tariffs. Now, are you offering your proposal as an amendment to a previously enacted House bill whereby it would be considered by this committee?

Senator MONTOYA. That is correct, Senator Williams. I am fully aware that we have no jurisdiction to initiate legislation here but there is no inhibition against us introducing legislation so that the committee can consider it by way of amendment to a tax bill that might originate in the House.

Senator WILLIAMS. That is correct, and I did not know whether you were offering it as an amendment to any particular bill or——

Senator MONTOYA. And we are willing to write any vehicle that the committee chooses. [Laughter.]

Senator WILLIAMS. As the committee proceeds to consider these various bills, if there are no amendments pending to the bills, you would automatically not be considered. So, I would suggest if it were mine, I would introduce it as an amendment to a bill which I did want to consider and then the committee would be in a position to consider it. Otherwise, someone may get left out.

Senator MONTOYA. Thank you for the suggestion.

Senator WILLIAMS. As we go through considering marking up certain bills, we automatically consider all the amendments which are pending to that bill and if there are no amendments pending it may be left aside.

Senator MONTOYA. Yes; we have this under consideration already. Mr. Chairman, I have two statements here that colleagues in the House have asked me to present to this committee, Congressman Walker and Congressman Morris. If I may be permitted to insert them at this point in the record.

The CHAIRMAN. Without objection, we will do that.

(The statements referred to follow:)

STATEMENT OF E. S. JOHNNY WALKER OF NEW MEXICO, REPRESENTATIVE IN CONGRESS

Mr. Chairman, distinguished members of this committee, I very much appreciate the opportunity to discuss my views, and the views of many of my constituents, on the matter of imports.

This is one of the issues which draws together diverse groups. Labor unions and management find common ground and farmers, oilmen, ranchers, textile manufacturers, and miners are in agreement. When imports cut into the Amercan producers share of American markets to the point at which growth is stultified, workers are laid off, and profits decline, then it is obvious that we must look at our trade policies to determine whether adjustments are in order.

I realize that import and export policy is directly connected to our foreign policy. Hopefully, in trying to win friends through trade agreements, it will be remembered that we must treat our domestic producers fairly.

We need a more realistic import quota system which will treat domestic industries as if they were at least as important as foreign ones, because they are.

I suppose I can be called protectionist for my stand, but this does not bother me since I consider it my duty to protect my constituents, and these imports are hurting producers and workers in New Mexico.

In the interest of brevity, I shall not include any figures. I am sure the various industries have supplied you with enough charts and graphs to illustrate their plights.

I have introduced bills in the House which seek to stabilize various industries in New Mexico.

I believe each import bill should be heard on its own merits. The following bills have been introduced by me during the current session of Congress:

H.R. 11863, to provide for orderly trade in textile articles;

H.R. 10915, to amend section 202 of the Agricultural Act of 1956;

H.R. 62, to provide for an adequate supply of Lead and Zinc;
H.R. 10712, to stabilize the oil and gas industry;
H.R. 11741, to amend the tariff schedules on potash;
H.R. 9508, to revise the quota control system on meat and meat products;
H.R. 13566, to impose quotas on the imports of potash;
and I confess that I am in sympathy with attempts to limit the imports on milk products.

I thank you again for holding these hearings and respectfully urge your favorable decision on measures which will give security to producers and workers.

Statement of Congressman Thomas G. Morris

Mr. Chairman, distinguished members of this committee, I wish to express my support for the imposition of realistic quota legislation in behalf of those Americans engaged in the potash, meat, textile and lead and zinc industries. My remarks will be brief, however, it is my hope that a complete and extensive examination of this nation's trade policy will be initiated at this point in our history.

With reference to the potash industry, I believe certain facts should be brought to your attention: (1) potash is a component in the production of fertilizer for our country's farmers; (2) the Department of Agriculture officially recognizes potash as one of the few products "vital and indispensable to the welfare of our agricultural economy;" (3) United States consumption of potash is presently over 4,000,000 tons, almost twice the amount as in 1960, and the demand is growing; (4) domestic production of potash is centered in the Southeastern New Mexico Basin, with approximately 90% of our country's total being produced there by some 4000 men employed in six separate companies; (5) the domestic industry can supply our nation with 80–85% of its demand for the next twenty years, according to the estimates of the U.S. Bureau of Mines; (6) because there is currently no limitation on potash imports, the duty-free importation has had an unrestricted climb from approximately 330,000 product tons in 1961 (or about 10% of our total consumption) to over two and one-half million product tons in 1966 (comprising over 38% of our total demand); (7) as a direct consequence of this import situation, the market is presently flooded, prices have dropped substantially for the first time in over 25 years, and over 1300 men are being laid off permanently by New Mexico potash corporations; (8) of the six companies presently in operation in New Mexico, one has announced that it will be forced to completely shut down next month, laying off over 900 employees, and move its plant to Canada; another has laid off about 400 men and sharply curtailed its domestic operations—purchasing Canadian holdings; and the other four are now investing in Canada and are phasing out their American interests; (9) the Canadian potash industry, located in Saskatchewan, enjoys a three-year tax holiday, lower labor and production costs, lower transportation costs, and a duty-free tariff concession with this country; and (10) if immediate action is not taken by the 90th Congress to remedy the import situation, the entire national potash industry—supplier of a vitally important agricultural product, New Mexico's second biggest tax-producing industry, and employer of thousands of American citizens—will, in fact, have no choice but to move its operations out of the United States, and our nation will become completely dependent upon foreign imports in order to supply our farmers with fertilizer for their crops.

A bill, introduced by the Honorable Joseph M. Montoya in the Senate, and jointly sponsored by the Honorable E. S. Johnny Walker and me in the House, would place a quota on potash imports based upon 25 percent of our domestic consumption and directed by the Secretary of Agriculture. It is our hope that this committee will recognize the nature of the crisis, and will expeditiously come to the assistance of America's potash industry.

With reference to the textile industry, I wish to emphasize the following factors: New Mexico is a primary producer of cotton and wool, yet excessive imports are undercutting our production and prices. Our textile wages average around $1.99 per hour, and in contrast, three countries that are large exporters of textiles which compete in the United States—Japan, Hong Kong, and Portugal—pay wages that average 39¢, 29¢, and 19¢ per hour, respectively. Since labor costs comprise a high percentage of total textile production costs, importers whose labor-cost content is so much lower than ours necessarily have a very great competitive cost advantage which, if not equitably remedied, will do irreparable damage to our national textile industry. Textile imports amounted to 2.7 billion yards in 1966, a 161% increase over 1961, and 15% of our home market. If some protection is not given to assist our nation's textile producers by this Congress, if prices are not stabilized, if the labor force is not reinstated in force—it is quite evident that is will take literally years to compensate for the disastrous financial effects of the present policy.

With regard to lead and zinc, it is equally evident that current and potential world supplies of these metals are approaching the point where the stability of prices and hence the welfare of United States mines and their employees will once again be threatened and adversely affected by excessive imports. Unless some deterrent is initiated, the country is likely to approach a repetition of the inexcusable and intolerable conditions caused by excessive imports in 1957 and 1958. With a flexible quota plan enacted into law which would become effective as imports build to levels beyond our needs, a stabilization of the economy would consequently occur.

And finally, with reference to meat imports, in 1966, total meat imports entering the United States subject to the 1964 Meat Import Law amounted to 1,128.1 million pounds (carcass weight equivalent). This was 5.8% of domestic commercial production, and when all imported beef is considered (not subject to the 1964 Meat Import Law), total imports amounted to about 10% of the nation's commercial production. In view of these statistics, it is my judgment that the 1964 Meat Import Law should be modified in order to bring imports down to more manageable levels. We must stabilize the domestic meat industry at a profitable level, and thus provide our nation's consumers with a continued high quality, wholesome product at reasonable prices for years to come.

Thank you.

The CHAIRMAN. Senator Talmadge?

Senator TALMADGE. No questions. I congratulate you on your statement, Senator Montoya.

Senator MONTOYA. Thank you.

The CHAIRMAN. Senator Curtis?

Senator CURTIS. I will not delay you, but I notice you made reference to the General Agreements on Tariffs and Trade or GATT. I think the record ought to show that GATT has never been approved by the Congress of the United States. And so far as GATT is concerned, the Congress has never surrendered any constitutional authority over the control of foreign commerce or the taxing power to GATT.

Senator MONTOYA. I think that is a very interesting point, Senator.

The CHAIRMAN. Senator Dirksen?

Senator DIRKSEN. At this time no questions, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Senator MONTOYA. Thank you, gentlemen.

(Following is a communication received by the committee expressing an interest in the preceding subject:)

CHICAGO, ILL.

Senator RUSSELL B. LONG,
Chairman, Washington, D.C.:

As one of the principal suppliers of agricultural fertilizer to the American farmer through cooperation channels with 22 member-cooperatives serving more than 2,500 local cooperatives which in turn serve over 2 million farmers, we strongly oppose any restrictions on the importation of potash to the United States from Canada.

Central Farmers Fertilizer Co., is an agricultural cooperative supplying the essential chemical fertilizer needs of the most of the large regional supply cooperatives in the United States. Central Farmers has substantial commitments until 1980 for the entire production of one Carlsbad potash plant. This company will soon exhaust its high-grade ores and is now looking to Canadian production for its future needs. This Carlsbad commitments now serves less than half of our needs, and Central Farmers has made substantial commitments in Canada for additional potash. This has been essential for the future potash supply of the American farmer.

Minable deposits of high-grade potash ore in the United States, principally at Carlsbad, N. Mex., are running out. The use of low-grade ores substantially increases the cost of potash fertilizers and raises the price to the U.S. farmers already beset by high cost burdens.

The potash ores of Canada will be the principal future source of potash fertilizers. These sources are the only ones available that can provide our farmers with high-quality fertilizers at reasonable prices. The proposed quota restrictions would not only jeopardize our Canadian investments but would commit American farmers to high-cost potash fertilizers for many years. We urge you to exclude any quotas on Canadian potash from the proposed industrial import quota bill. Such exclusion is vital to our farmers and the overall economy.

K. F. LUNDBERG,
President, Central Farmers Fertilizer Co.

The CHAIRMAN. Our next witness this morning will be the senior Senator from New York, the Honorable Jacob K. Javits. Senator Javits has views on trade matters that are well known, and I am sure he will make a very significant contribution to our hearings. We are pleased to have you.

STATEMENT OF HON. JACOB K. JAVITS, A U.S. SENATOR FROM THE STATE OF NEW YORK

Senator JAVITS. Mr. Chairman, I thank the committee very much for its time. I shall try very hard to make my testimony brief, though I have a statement. I ask unanimous consent that it may be made part of the record. I will try to paraphrase it.

May I do that, Mr. Chairman, just put my statement in the record?

The CHAIRMAN. Yes.

Senator JAVITS. And I will try to paraphrase it.

Mr. Chairman, I testify in opposition to the quota bills and I would like first, to give my constructive alternative, because I think that it is not as effective and not as helpful to the committee and that is my desire, to be critical in terms of what should not be done, but I think it is due to the committee to have from me what I think ought to be done. There is a real situation here and it is a serious one.

It is very interesting to me, Mr. Chairman, that this morning as I approached the committee room, there was an enormous crowd outside and these hearings are attracting enormous attention. Now, we all know what attracts attention, something really sensational, and this is sensational. The papers print news about murders because they sell papers. And this is very likely to be, if you took it as it is introduced, pretty much the murder of the reciprocal trade agreements and the trade liberation position of the United States for 30 years. Now, that does not make it right or wrong, but it is a very, very serious and a very deep matter. And what makes it deep, Mr. Chairman, is that we are the leading trading nation in the world with an enormous stake in trade, about $50 billion. And hence, what we do is a lot more important than what some smaller nation might do to monkey around with its own trade position, and I heard Senator Montoya. He is absolutely right in answering the Chair. They have all kinds of inside deals which are called nontariff barriers to trade. Vexing, unfair. The typical tyranny of the weak getting away with little things.

Nonetheless, we have learned the hard way that as the top Nation in the world economically, there are some things that others can do that we cannot do, even though it looks odd and you are angry as you can be. Nonetheless, it still is the wise element in your own interest to show a sense of restraint. And I think this situation is quite typical. We are very strong. We can do this and it will be tremendously harmful to others but it will also be very harmful to us.

Now, Mr. Chairman, I prefer, and I lay this before the committee, that program which consists of adjustment assistance which we now have in title III of the Trade Expansion Act which is too tight, too strict and unworkable really because, as a matter of fact, nobody has gotten adjustment assistance and the purpose of putting it on the books was to make it available to people who need it. If you have a dying business—some businesses have to die. You gentlemen have been in this for years. You are all thoroughly aware of those famous arguments about industrial obsolescence. If you try to keep every business alive, this country will go under. That includes anything, with no disrespect to my colleague who just testified before me who has got the problem of the chemically created fertilizer. All of us have the same thing. I do not know how I would do if I went back into law today in a very active way to try cases after not having tried them for maybe 15 or 20 years.

The second point is that we need in this country to help American business which is unable to do so to modernize or to change over. Many of these businesses, like the one the relatively small industry testified to a little while ago, need some help for a changeover. I say it is much cheaper and much better in the interests of our Nation to establish a modernization fund or modernization bank and we will not lose any money on it either. The tradition of these enterprises in this country has always been that we make money on matters of that kind, not lose it, rather than to dismantle the trade structure of the world which is what we would be doing if we really rode this thing as hard as it is proposed.

For example, a combination of all the bills which are here discussed, including my beloved colleague, Senator Dirken's so-called Christmas tree bill, involves imports valued at $12 billion or over 50 percent of all U.S. imports and put them in the quota category.

It is much cheaper in my judgment, to help with large sums of money for the modernization of American business which may be threatened in this way. And then also, I think we have to be very vigilant to eliminate such Government policies as contribute to the difficulties of certain industries like the textile industry in facing foreign competition, and that is that famous two-price cotton deal where the left hand did not know what the right hand was doing.

Now, those, in my judgment, are critical alternatives. There may be others. I think that if the committee used its ingenuity to give the United States a stronger position with respect to the efforts which it must make on a major level—I do not know, because I have not read the testimony yet, what you gentlemen challenged the Cabinet officers with, but I certainly would challenge them on the aggressiveness and the vigor and the effectiveness with which they have gone after the nontariff barrier business in many countries which are inhibiting very materially American exports by various forms of taxes and restrictions, and this goes for the biggest countries, including France, which undermine the whole reciprocal trade policy in an indirect way. There is no reason why we should tolerate that, but it is a lot bloodier and a lot more disadvantageous for us to counter that by measures of this character than it would be by attacking them directly, either in GATT or by negotiation or indeed, by retaliation, directly. There is no reason why we should not do that where we are justified and I have no objection to that. But, I do think that this way of doing it is very unwise from our point of view, considering what is at stake.

Now, one other thing which is critically important. We all represent States. There are many States very greatly advantaged by foreign trade. My State is very greatly advantaged by foreign trade and I think there are very many others. That goes also for a great industrial State like Delaware.

Let us just look at the figures as far as New York, which has 10 percent of the country's population, which has about 20 percent of the country's trade, and which pays about 20 percent of the country's taxes, which "ain't hay," as we say on the sidewalks of New York.

Now, as far as New York is concerned, we do a billion and a half in manufacturer exports which originate in our State, in addition to more than 75 million in agricultural exports which originate in the State. We import substantial amounts of raw material and parts but that raw material and parts is needed for the products which we manufacture in the State. Fifteen and nine-tenths billion dollars of foreign commerce is shipped through the Port of New York from destinations all over the United States, to and from destinations all over the world and, according to a recent study by the First National City Bank in New York, 375,000 jobs are involved in loading, unloading trucking, producing these goods in the Port of New York area. In addition to that, there is that famous hidden income, hidden exports, which comes from steamship lines, airlines, railroads, truck carriers, banks, insurance companies, freight forders, customs brokers, as well as the tax revenue involved for local, State, and Federal Government. Now, that is true in my State. It is true in many, many other States of the United States, and so there, too, is a critically important question.

Now, another thing, Mr. Chairman, that I analyzed in this statement—I am not going to take the committee's time to read it in detail—is the individual case for quotas. For example, in steel, which is one of the most prominent of the items upon which quotas are sought to be imposed. The fact is that the steel industry is in pretty good condition in terms of profits, in terms of employment, in terms of production, and that quotas for the steel business would not take account of the fact that many steelmakers themselves import steel of different grades which they need for their own alloys. It would not take account of the fact that much of the steel which is imported goes into manufactured goods which is exported at a very material profit to the United States, nor would it take into account the fact that the steel industry is made sharper by the imports in terms of service, which is very important in this country, incidentially. That is a big item, time of the delivery. And is made sharper in terms of price to the consumer. And one of the big things that people from big population areas like myself, have to talk about in hearings of this kind is the impact upon the consumer who is bound to have to pay more with a protected market and that is what we are getting back to.

This'is a very interesting idea, this quota idea. It got very unpopular to trade circles around here in the thirties. So, we now have a new scheme, quotas. And Senator Williams says, I think a bit euphemistically to Senator Montoya, just lay it on somebody else's bill and Senator Dirksen with his inevitable. charm is going to lay them all on somebody else's bill. Now, I do not say this facetiously, gentlemen, because I think it does illustrate the fact that quite unwittingly and with a new label we will be back again at the old logrolling business which was so very, very serious to this country and I think contributed very heavily to the ultimate depression which engulfed the world and almost devastated all of mankind.

Now, finally, New York, strange as it may sound, is a big agricultural State. We are tremendous producers of all kinds of agricultural things. Apples, for example, in which we are very big. And many other farm commodities, very heavy in dairying. I think the impact of all of these quotas on the farm exports of this country had better be very, very seriously considered. They are really the ones who will take a very big rap. And the fact is, as you hear all the iniquities which are performed upon us by the nasty things which other people do about non-tariff-trade barriers and border taxes, et cetera, somehow or other at the right end comes a $4 to $6 billion annual export surplus, a pretty consistent one. Now, that is not made with mirrors and it is absolutely indispensable to the foreign policy position of the United States. My assistant has just given me the exact figures. It goes as high as 6,700,000 in 1964, down to 3,700,000 in 1966. I gather the 1967 figures are somewhat better, but we do run consistently a very substantial trade surplus; and this is indispensable to the strength of the dollar and our power in the world, and we wish to exercise that power. If we do not, this is probably as good a way to do it as any, to draw back into Fortress America. I think that the decision against that has been made a long time ago.

Now, in my own judgment, it is difficult, it is difficult for me, gentlemen, to appear and give this kind of testimony because New York also has various types of business that would like very much to have these quotas, but on balance, and having lived with this for years and years, it is the duty of people like myself who have at least some possibility of expressing these views without having the roof fall in in political terms, to express them and to present as ably as I humanly can the other side of the medallion in this. I would like to sum up by saying we are by no means helpless and there are lots of things we have to react to. We have not reacted to them aggressively enough but this is certainly not the remedy to employ, to throw the baby out with the bath, to wit, our very, very real preeminent position in foreign trade, as a leader not only in terms of capital but in the kind of policy by which the world would run. There are lots of other ways in which we can help our own domestic people when they need it, and I am all for that. I certainly would not be chintzy about that. I think the adjustments assistance features of the Trade Expansion Act are much too restrained and much too unworkable, and at the same time, even to retaliate against others who get particularly nasty on this score without dismantling, and I think these quotas would effectively do it. That is why it is such a sensational hearing, because it does look to the world like a very important reaction and movement back into a day over three decades ago which the world assumed the United States considered as dead as it does isolationism. Yet here it is in economic terms the same idea projected in a different way. I hope very much the committee will be very thoughtful about this and with a view towards being of any further help I can, I wired some of the most important industrial leaders in the country.

I would like to, if I may, make as part of my testimony, the telegrams of these great industrial figures who have enormous domestic businesses, and foreign businesses, as well, in terms of the balance of our country economically. I will read the names in. The Cabot Corp. of Boston; the Caterpillar Tractor Co. of Peoria, Ill.; the Federated Department Stores, Cincinnati, Ohio; the Fidelity Bank, Philadelphia; Heinz 57, Pittsburgh; the IBM World Trade Corp.; The Chase Manhattan Bank; First National City Bank of New York; also the Port Authority of New York at Buffalo, N.Y.; the American Importers Association; the Committee for National Trade Policy; et cetera.

I will put all these telegrams into the hearing record, with the Chair's permission in view of this critically important subject.

(The telegrams referred to appear at p. 246.)

Senator Javits. May I also, Mr. Chairman, call the attention of the committee to a splendid technical job done by one of our committees on which I have the honor to be the ranking Senate member on the minority side, which is the Joint Economic Committee. I will just refer to that because I do hope the committee will give very complete attention to it. I am sure it will. This study on the future of U.S. foreign trade policy published October 8, together with a compendium of papers issued this morning, of very high technical competence, on the same subject. And I hope very much that the relationship between the committees may be served by careful study of this. I thank the chairman.

The Chairman. Senator Javits, I appreciate your testimony here and I do recognize the tremendous interest that New York City and New York State have in this matter. If the committee does vote for some protection for some American industry I would be willing to make you a fair proposition, a sweetener, to go along with that suggestion, that with regard to these industrialists who represent manufacturers, such as Caterpillar Tractor, I would be willing to move in the direction of expanded imports while we protect some other industries at the same time. That is, we could strip away whatever protection our big exporters have because if they want to expand trade, it would seem to me, they do not need any tariff barrier right now and until these other nations start producing more agricultural machinery and shipping it in our direction, it would not jeopardize them at all. In other words, I should gain the impression that some industries have a lot more protection than they need, while others do not have near as much; in fact, they have completely inadequate protection. These would include, for example, the textile industry, which is a big industry right there in New York City, I believe. You have a lot of garment manufacturers.

Senator Javits. It is. As a matter of fact, the textile industry illustrates one of the main points in this thing and naturally management will lay on to imports any problems, including its own failure to modernize, including its own failure to change lines, to take advantage or to take account of progress in trade and in technical and in fashion terms. It is a tremendous umbrella. And the history of quotas and of trade protectionism is that it is never ending because in many cases you are doing it for businesses which are either obsolescent or have not kept up with the times and it is the tough business that is aggressive, out for sales, and out for meeting the situation as it exists in the world that generally is in here telling you that it would rather fight for exports than be protected in respect of imports. This is one of the big endemic problems in this field and why very importantly—why the quota business is not the answer, because it does put a roof and a restraint upon the very ingenuity and consciousness of advancing trends that has been a very important point. Let me just point out to you that you are going to run into a jam if you do this with Japan, with the European Economic Community, which is just beginning to show its own teeth in protectionist terms and is a bloc of trade equivalent to our own. If memory serves me, they have a bigger trade than we do and they are already telling us they will take it out in U.S. machinery in the kind of a world which we would create if we went in for a broad across-the-board quota spectrum.

So my answer to the chairman is this. He and I have both been here a long time. We have been subjected to the pressures and views of many lobbyists but we generally strip away the lobbying from the fact and the only reason I offered these telegrams is have a look at them, see what the merits are. If they have got a case, fine. If they have not, forget it. But I think considering the source, and our new concept of business in the public interest, which is carried by many of these very distinguished companies, they are entitled to have their arguments looked at.

The CHAIRMAN. Senator Javits, you are too sophisticated and too well informed on all this trade business to view this matter as being something entirely black or entirely white. You have to look at all the problems involved in it to see just about where we ought to come out. Here is a message that was sent down by the President of the United States, the first year this committee was formed. It came within the jurisdiction of this committee. I assume the Tariff Act of 1816 was passed and recommended by the Finance Committee based on this message—a message from James Madison in 1815. He spoke of this tariff matter. He said that Congress should take a look at it.

> In adjusting the duties on imports, to the object of revenue, the influence of the tariff on manufacturers, will necessarily present itself for consideration. However wise the theory may be, which leaves to the sagacity and interest of individuals the application of their industry and resources, there are in this, as in other cases, exceptions to the general rule. Besides the condition which the theory itself implies of a reciprocal adoption by other nations, experience teaches that so many circumstances must concur in introducing and maturing manufacturing establishments, especially of the more complicated kinds, that a country may remain long without them, although sufficiently advanced, and in some respects even peculiarly fitted for carrying them on with success. Under circumstances giving a powerful impulse to manufacturing industry, it has made among us a progress, and exhibited an efficiency, which justify the belief, that with a protection not more than is due to the enterprising citizens whose interests are now at stake, it will become, at an early day, not only safe against occasional competitions from abroad, but a source of domestic wealth, and even of external commerce. In selecting the branches more especially entitled to the public patronage,

> a preference is obviously claimed by such as will relieve the United States from a dependence on foreign supplies, ever subject to casual failures, for articles necessary for the public defense, or connected with the primary wants of individuals. It will be an additional recommendation of particular manufacturers, where the materials for them are extensively drawn from our agriculture, and consequently impart and insure to that great fund of national prosperity and independence, an encouragement which cannot fail to be rewarded.

It was following that philosophy that New York City and New York State became the leader of the capitalistic world and we want to think in those terms as we proceed.

Now, you and I supported that Canadian Auto Agreement a couple of years ago and at that time it was argued that the United States was going to lose jobs if we passed that bill. In my judgment, there was no doubt we were going to lose jobs if we passed it. The argument for the measure was if we did not pass it we would lose more jobs because Canada had made up their minds they were going to manufacture automobiles, and they did not care if it did cost more to have automobiles in Canada, as it would assuredly. They were going to manufacture them because they wanted those high-paying auto jobs. Every important nation on earth that is a major trading nation has just about made the decision for itself, to protect its high-wage industries that are highly regarded and prestige industries. They do not propose to trade on such a basis that they are settling for 50-cent-an-hour jobs or for $1-an-hour jobs where the other fellow gets the $7-an-hour jobs. They just made up their minds even if it cost more for automobiles they were going to manufacture a certain amount of them.

So, we have to think in terms of our national interest as they do theirs. It seems to me, that generally speaking these things have to depend upon the circumstances. Now, when a particular industry is threatened I do not believe that even you representing the great State of New York, which is the No. 1 trading State in America, would be inclined to say, "Well, let us just disregard that industry and the tens of billions of dollars these people have invested in it. Let us go ahead and vote them right out of business and go into something else." I think you would say they have some equities. Let us find some poin:s at which we will permit them to continue in business.

Now, if we are going to just vote them out of business or trade them out of business or send somebody to Geneva to sign a contract and put them out of business, it seems to me, we should arrange to compensate him for his loss. Does that sound fair to you?

Senator JAVITS. Well, Mr. Chairman, what I would add to what the Chair has said, is that self-help and mutual cooperation are my guides. What the Chair has spoken about is mutual cooperation, to wit, that we will not let the huge investments, great employment, go by the boards callously. To that must be added the fact that these huge investments are also joined by self-help and the people are moving to change and modify and do what needs to be done.

Now, if the time is inadequate, we have had situations where a particular line of business has been suddenly hit in a very big way. That was one of the reasons for the negotiation of the long-term Cotton Textile Agreement. Business was suddenly hit with millions and millions of items from Hong Kong and other similar very low wage areas and I have always been with the Chair—I know the Chair has been the leader of that—in giving an opportunity to assist such industries or to enable them to phase out in the most agreeable way consistent with the broad and liberal trade policy, but what I am testifying against here today is the fact that we are now going to go generically into another type of protectionism rather than the efforts either by financing, which is why I said what I did about trade adjustment, or by encouraging our own exports which gives people a chance to find other jobs in other investments in this country, or in a very grave emergency by dealing with a single issue on an emergency level, which I have never objected to, to give an opportunity for a proper phaseout of a competitive situation.

Now that, I think, coupled with the fact that people will be helping themselves represent a legitimate, intelligent trade policy for our Nation, and the vexing—what I think, Mr. Chairman, If I may just finish in this way, the vexing problems which are presented to us, the nettling things which I mentioned in the generic term of "nontariff barriers to trade," I think there if we tried to hit those which are very nettling and very vexing with this kind of a system, quota trading system, there you really are shooting a 90-millimeter gun at a gnat, and there are many other ways, and I have tried to suggest some in which we can meet that situation. So, I would go with the Chair with the addition of the self-help factor and the emergency individual phaseout situation factor.

The CHAIRMAN. I really think, Senator Javits, that on theory we are not very far apart. In practice we might be because I represent Louisiana and you represent the State of New York.

Senator JAVITS. Indeed.

The CHAIRMAN. So that the——

Senator JAVITS. But, Mr. Chairman, I listened to you very carefully on many things. I voted with you on many things which have involved a Louisiana view of the welfare of the individual in this country and what the country could afford to buttress that welfare, and I think with all respect, though we are sectional in our country, that is very natural; I think I am entitled to be listened to on the business and the economics and the long-range success of the economy of the country, because we have been successful and you like to listen to a successful man.

The CHAIRMAN. We have a pretty good port at New Orleans and we sometimes claim it to be the second port in the United States. It depends upon how you count—whether you are counting it on a tonnage basis or the value of the imports that come through the harbor, but we are very much interested in this matter also.

You made reference to this idea of putting an amendment on someone else's bill. You are familiar, are you not, with the fact that under the Constitution the Senate cannot originate a revenue bill?

Senator JAVITS. Of course.

The CHAIRMAN. So, if we are going to act in the trade area, we have absolutely no choice about it. We have to take a House-passed bill, and furthermore, the House has taken advantage of the Senate in that regard to construe things as being revenue bills even when they are not. For example, an appropriation bill was never intended to be a revenue bill, but the House just says that is a revenue and any time we send them one, they just send it back with a little blue slip that says in the opinion of the House this is a revenue bill and we would courteously remind you that revenue bills must originate in the House. The heck of it is that we cannot even get into court to prove them wrong because we cannot pass on anything. If we have to, we amend some House-passed bill or the Parliamentarian over there will send us another blue slip and once again we are out of business. So we have to amend someone else's bill.

Now, there is an additional problem involved. When you amend somebody else's bill, if we take the gooseberry bill which says a gooseberry is not a vegetable or fruit, or vice versa—I forget which way it went—if we take the gooseberry bill and put something on there about oil, they can say that is not germane, or if we put steel on there, that is not germane.

Furthermore, you have an additional problem. If you put a rider on something, it is the same principle as putting a rider on a horse. If you put too big a rider on too small a horse you do not go anywhere at all. So even if it might be a horse of the wrong color you would do well to pick a big enough horse to carry the rider.

You are familiar with that problem. You have offered riders yourself on the floor and sometimes have been very successful.

Senator JAVITS. Mr. Chairman, I would never tear down our family. [Laughter.]

Mr. Chairman, may I complete the record, because I would not wish to be found deficient in knowledge about the Founding Fathers, by reading a sentence which the Washington Daily News says that Thomas Jefferson proclaimed 108 years ago. He said: "I am for free commerce for all nations." Very pithy Jefferson.

The CHAIRMAN. He said that 108 years ago?

Senator JAVITS. That is what they said.

The CHAIRMAN. That must have been about the same year he died, I should think. [Laughter.]

Senator JAVITS. I had better get new glasses, Mr. Chairman. It is 168.

The CHAIRMAN. Senator Williams?

Senator WILLIAMS. I do not have any questions, Senator. I appreciate your statement. It certainly will be given consideration. I merely pointed out to the previous witness the facts of life, that the amendments, if they are considered over here, must be considered as amendments to the other bill, because we as Member of the Senate, could answer all of our constituents that we are in favor of *x* Senate bill with the full knowledge that we would never get a chance to vote for it as such, so I think we ought to clear up the record for all concerned.

I only make this observation which is not relevant to the question at all. I was interested in the chairman's remarks as he read President Madison's message of 1815. I am interested in your comments as tó President Jefferson's, and I notice in the Wall Street Journal today they referred to the fact that the interest rates under this administration have hit a 100-year high, back to the Reconstruction days, and I just wonder if what we need in this country is not a forward look rather than everybody looking backward.

Senator JAVITS. That is very true and that is why I might say this, Senator Williams. The only reason I said what I did about these riders is only that once you get started on quotas, everybody wants to get aboard. I understand the technique. The other thing that I think is important is that this committee can be very creative in the trade field, but if it takes account of what is happening, that is, the Kennedy Round and the new expansion of trade and the new Common Market concepts which give tremendous retaliatory power against us, and I certainly do not feel they are going to be reluctant to use it if we give them a chance, that is the only point. So, I agree with the Senator, that we should look forward, look forward creatively. It is toward that, I was hoping to direct my testimony.

The CHAIRMAN. Senator Carlson?

Senator CARLSON. No questions.

The CHAIRMAN. Senator Curtis?

Senator CURTIS. No questions.

The CHAIRMAN. Senator Talmadge?

Senator TALMADGE. No questions.

The CHAIRMAN. Senator Dirksen?

Senator DIRKSEN. My distinguished and knowledgeable friend from New York, as I recall, was not around here at the time Cordell Hull was Secretary of State.

Senator JAVITS. That is correct.

Senator DIRKSEN. I was. I remember the first time I voted on the Reciprocal Trade Agreements Act in 1934. I am always a little reluctant to go back even that far and certainly more reluctant to go back to President Madison. I, on occasion, have been upbraided and chided for doing so, and I have told about the fellow who went into the restaurant, wrapped the napkin around his neck and when the waiter came he said what kind of soup do you have? He said oxtail. He said, oh, why go back that far? [Laughter.] So I am a little reluctant about going back. But the Reciprocal Trade Act has from time to time, intruded into this discussion, and I was delighted to sit in my first Cabinet meeting yesterday in this room. It was an engaging experience, to say the least.

But, I recall so well the glowing and rosy promises that were made at the time we passed the Reciprocal Trade Agreements Act. Oh, they still ring in my recollection. It is the sure road to peace. All we have to do is topple these barriers and peace will be there almost automatically.

Well, we have had a world war since then. We have had another one in Korea. And we have got a king-sized business going on in Vietnam today as we sit in this committee room. So, I very simply and very humbly suggest: Where is the peace and tranquillity that they promised us as a result of the Trade Agreements Act? I hope my friend does not mind if I soliloquize here a little.

Senator JAVITS. I love it. [Laughter.]

Senator DIRKSEN. There were four distinguished gentlemen from Nigeria in my office yesterday, including the Secretary of State of Nigeria. They came to express the hope that we would not forsake them in their difficulty in the internecine strife that goes on now. That is only one example of what is going on in nearly every continent in this world.

So, where is this highly desirable and golden objective of peace that was to come out of our trade activities? We have had a third of a century and that is a very long time. So, I do not know that it has materialized yet.

And do you not think a person is entitled to cross his fingers when he goes back to any of these promises that did not materialize and did not materialize for us because 13,000 dead and another 90,000 wounded in Vietnam of our own is pretty good testimony that it did not take us to that door marked "peace."

They said we were going to be prosperous. You see, that came at a time when Henry Wallace was Secretary of Agriculture, and may I say parenthetically, drawing completely on memory and unrehearsed, if I make a slip, just charge that to a momentary aberration to which all people are subject, I suppose.

Senator JAVITS. The minority leader less frequently than most.

Senator DIRKSEN. I got to thinking about the farm problem. You see, at that time, at the time of the trade agreements, we threw 15 million reluctant little pigs in the rendering vats. Oh, the theory was very simple. Make the supplies less available and the demand greater and automatically your price goes up because farm prices fell into the cellar, as everyone knows, after the market crash of 1929.

We began to plow under every other row of cotton for a while. I do not know how many rows we plowed under but at least we talked about it. We did other things. Then, of course, we took a few grains of gold out of the gold dollar described in our statute and when you take grains of gold out of the dollar you cheapen the dollar and it takes more of those cheaper dollars to buy the same thing. The idea was to scoot the price level up.

Well, we have been at it now for 33 years. The price of corn now is 23 cents a bushel less than it was last year. The price of wheat now, this month, is 32 cents less than it was this same month last year. The price of soybeans is 44 cents below what it was last year. And I guess there are other items that are comparable.

So, the farmers are hurting but they said, oh, reciprocal trade, that is the unerring badge of farm prosperity.

Well, if there is anything known to the ingenuity of mankind that we have not done in the farm picture, I do not know what it is. And the billions that we have spent to pursue this will-o'-the-wisp, the philosophy of scarcity, rather than the philosophy of productivity, but I did not find it coming out of the Reciprocal Trade Agreements Act and I expect that is true of industry, for why would one of the largest if not the largest, corporate structure in the United States, namely, U.S. Steel, together with the steelworkers, be marching up to senatorial offices and saying in view of the imports plus one other factor that is even more important, namely, the new capacity that is being built abroad, absolutely threatens them in this one great lush market of the country. This is another figure out of my memory but I presume Japanese steel production is about 50 million tons. When they get their new capacity in place it will be 80 million. My understanding is that they have been pretty well interdicted in selling steel into the EEC, the European Economic Community. Well, there is only one place where that Japanese steel can go and that is into this market. So it becomes quite understandable what U.S. and Bethlehem and the steelworkers and Inland Steel in Chicago and Granite City Steel and others—well, they have been very much interested in the importation of 11 billion tons of steel.

Now, let me just recite one other thing. I began to get concerned about all this money we are dumping into Appalachia. It came to my attention when I was looking through the quarterly this morning rather early in my desk at home, I see we have added some counties to the Appalachian area and, of course, we authorized $250 million last year, and we are going to authorize $170 million this year, but that is going to be exclusive of highway money, which is a huge sum, plus other items for the special benefit of Appalachia, and when that program came they said among other things, there are no jobs. We have got to provide durable jobs for Appalachia.

Now, I cannot verify this figure; I will have to go and ask the Textile Institute about it, but they insist that 300,000 textile jobs went down the drain in Appalachia. Why? Not entirely from man-made fibers. There must be other reasons as well; namely, the swelling imports. So the imports destroy the jobs and we reach a long skeletal congressional arm into the Federal Treasury and haul out hundreds of millions to give Appalachia. Why? To lure industry in there. And the last report I have seen is that they have not been lured. And no jobs have been created.

Now, let me ask just one question at this point. When all is said and done, what is the important factor that we have got to deal with if it is not jobs?

Senator JAVITS. Would the Senator like me to answer that?

Senator DIRKSEN. Yes.

Senator JAVITS. We have to deal with what will create the most jobs for the most people under the best conditions, and if my case cannot prove that a more open international trade for the United States can produce more jobs for more people at better rates, then I have failed, but I believe it does because I believe that the rise of the employable population of the United States, the diminution of the unemployment rolls, have indicated that by favoring this type of trade policy, we have created more jobs and created the billions that enable us to reach in and do something for Appalachia.

I would like to put before the Senator the following fact. More jobs were lost in New England in the textile business than were lost in Appalachia, but did New England sit on its hands and weep or go out and forget about it and smoke a cigarette on Tobacco Road? No. New England went to work and it is most prosperous today than ever because it went into new lines, electronics and other lines, and what we lost in the peas we gained in the bananas. Where at the time of the textile—flourishing textile business in Appalachia was the trade in computers and other sophisticated types of machinery? Where was the trade in jet airplanes. There are new things which have come upon the world which have enormously buttressed our situation because of our capability of having exports. This is the way of the world, and while I am at it, I would like to say to the Senator, about this matter of the overpromise of the Cordell Hull idea in reciprocal trade, we had the same overpromise in the Kellogg-Briand Treaty. The Senator knows that a representation has got to be made and also acted on.

Now, I do not think a majority of the Congress had any illusion that the Cordell Hull reciprocal trade was going to bring eternal peace but I do think the Congress was convinced that it would very materially improve the economic condition of the United States, and I believe it did. And I believe that the continuity of the figures over the years in terms of the exports and imports, the gross national product, the tax take, all demonstrate that a flourishing international trade is on the whole, a better economic posture for the United States than a protected market internally which denies the United States and the American consumers and American business all of the opportunities which are inherent in this fact.

Senator DIRKSEN. Now, let me make a rejoinder to my distinguished colleague from New York. There are two bills before this committee, one introduced by Senator Muskie and others, with regard to the orderly trade in footwear. Senator Muskie comes from Maine. Joined with him is Senator Brooke. He comes from Massachusetts. That is the New England area, is it not? Mr. Cotton is from New Hampshire. That is New England, is it not? I am on it but I am not from New England. Senator Ervin is on it. Senator Inouye is on it. Senator McIntyre is on it. He is from New England. Mrs. Smith is on it. She is from New England. Senator Thurmond is on it.

Now, there is still another bill here. It was introduced by Senator Brooke, of Massachusetts, with respect to electronics. So I—I do not know, is New England hurting or have they entirely conquered their difficulties?

Senator JAVITS. Well, I suppose every Senator is anxious to get all the business he can. I do not say New England is not hurting. I am only pointing out that New England did move itself into a situation where it was not destroyed. There was a moment when it was thought New England was going to be depopulated and destroyed. I might point out my colleague, Senator Kennedy, is on one of these quota bills, too. That does not make it right and does not prevent me from taking a different position.

Senator DIRKSEN. Another one of your colleagues also, not your immediate area, his name is Kennedy, just so there is no mistake as to what I have in mind.

Now, I want to go a little bit further in this business. Would you say that the European Economic Community, better known as the Common Market, is anything else but a mass protection gadget?

Senator JAVITS. Yes; I think it is more.

Senator DIRKSEN. All right; tell me.

Senator JAVITS. I will tell you what it is.

Senator DIRKSEN. First, do you agree it is a mass protection——

Senator JAVITS. I think it is a means by which more than one country can endeavor to protect itself, yes; but I also think its primary purpose is to create an internal market of a magnitude comparable to that of the United States which would give its external commerce retaliatory power and at the same time free because of greater efficiencies through what in trade terms is called complementarism; that is, producing where it is the most efficient, within that area. It is an effort really to parallel the United States in economic terms.

Now, I would say that certainly the instinct of every country is to engage in protection and every aggregation of trade to engage in protection, but that instinct is overcome time and again by agreements like GATT and the Kennedy round, because of its superior self-interest, and I said before to the Senator—and we are much too grown up here to think anything else—that the position which I espoused must be justified on the basis of self-interest, the higher self-interest. Otherwise, it cannot stand up. I am not here pleading altruism on the part of the United States. I am pleading very simply that we get more out of this type of a trading picture than the type of trading picture that would be created by these quota bills. If we went to the quota bills, we would suffer in actual trade terms, in employment terms, in income terms. I endeavor to prove that. If I cannot, my case flops. But I also say if the quota people cannot prove the same thing on their side, their case collapses and as they have to prove the case, they are the proponents, not I, if their case collapses I do not have to do anything. That is the way in which I made my case here.

Senator DIRKSEN. Let me ask: What do you think was the moving reason for the Ford enterprises to go to Britain and build an automobile factory, produce a British Ford?

Senator JAVITS. Well, I am not privy to the internal secrets——

Senator DIRKSEN. Oh, I am not either.

Senator JAVITS (continuing). Of the Ford organization, but I would say that the effort was to make themselves available to the Commonwealth market, to jump the tariff barrier, as it were, and to hopefully make themselves available from that manufacturing spot to the European Common Market, assuming Britain gained membership. But they will tell you themselves, Senator Dirksen, that this represents an ancillary activity to their enterprise and I think they can probably prove to you that employment and production and sales have grown in this country at one and the same time they have been establishing these enclaves abroad, and that the enclaves abroad are of tremendous benefit to the U.S. domestic industry because many of the parts, much of the expertise, a good deal of the profit which comes out of those enterprises comes right back here. The answer is, I think, in overall terms we have not gotten poorer. We have gotten very much richer as a result of what has occurred in the world trading picture during the last 30 years. That is the ultimate point.

Now, Senator Dirksen, I do not want to take a narrow view. I will repeat that there are areas for very creative activity by this committee and I have tried to delimit some and others may delimit others and I deeply believe, otherwise I would not be here—you know me very well and know I would never stultify myself—I deeply believe that the quota idea is a reversal and will be considered not just in world opinion but in world reaction a reversal of the whole American trade policy and will be very costly to us. If I cannot put some substance behind that, then my testimony has no worth.

Senator DIRKSEN. Oh, I go about this in an exploratory fashion. I could be wrong, but I have to point out some things that are forgotten, particularly by these editorial writers who pontificate out of a hole in the head in some ivory tower without knowing what it is all about.

Now, one of the things I see they have forgotten, either conveniently or otherwise, nobody seems to have mentioned that we have spent $140 billion of the American taxpayers' money on foreign aid in the last 22 years and what happened? Well, if we did not teach the world know-how, then I do not know what we taught them. And probably one of the best examples is the high type of merchandise that comes out of the country of Japan today. People ought to just walk around and see some of these exhibits in this country like the one they had out at McCormick Place in Chicago and at Navy Pier—really topflight merchandise. Heretofore they used to take refuge in the fact that, oh, they copy things, and they are not equivalent in genius and brains and innovative spirit to what we have here.

Now, there is one other thing I have got to pursue. You used a trade balance figure of $6 billion plus. I would like to know where that came from.

Senator JAVITS. I gave all the figures, Senator Dirksen. I used a figure of 6 billion generically and then I gave the detailed figures for 1964, $6.7 billion; for 1966, $3.7 billion. I pointed out that the 1967 figures were considered to be better than the 1966 figures and made the point that we have consistently run a substantial trade surplus. I did not——

Senator DIRKSEN. Now, you have those figures before you?

Senator JAVITS. I gave them before.

Senator DIRKSEN. They came from the Department of Commerce?

Senator JAVITS. That is exactly right.

Senator DIRKSEN. Let us verify them for the record, just as a matter of some interest. This is for 1966. The Department of Commerce made this report on January 25, 1967, correct?

Senator JAVITS. I think so.

Senator DIRKSEN. Exports of domestic merchandise, excluding defense shipments, $28,958.6 million. So, let us just take $28 billion plus for easy recollection.

Now, look at the next figure, also from the Department of Commerce. General imports of merchandise, $25,550 million. Balance-of-merchandise trade, $3,408 million, on the favorable side.

Now, we have to look at something else. Exports financed by the U.S. Government, which are, therefore, noncommercial. For the first 9 months, $2,214 million. Now, if you just use a comparable proportionate figure for the last 3 months, that would bring that up to $2,952 million. Those are financed by the Federal Government. They are noncommercial. But they have included them, so you see you are going to have to make a deduction here and when you deduct that from the trade balance, what is left—$456 million? That is a different dish, is it not?

Senator JAVITS. Well, Senator Dirksen, I am sorry I cannot agree that it is a different dish for this reason. If you are going to argue this case in terms of employment, and in terms of economic impact, you cannot deduct that amount of money because 80 percent of that foreign aid is tied to American purchase, and hence we do get the benefit of it here. And, secondly, a great part of the foreign aid picture is now in loans and the loan situation certainly as compared with the grant situation has worked out in giving the United States tangible assets upon which we have an excellent chance and have indeed been collecting.

The third point in respect of the export-import merchandise balance is it does not take account of hidden exports. I referred to those a little while ago. I have not got the figures here, but these very exports which the Senator refers to engender an enormous amount of indirect exports and, in addition, I think there should be considered in that figure the fact that we now receive $6.2 million in income on U.S. investments abroad and many of the enterprises which earn that income will testify to the fact that a viable foreign trade picture is essential to the viability of their investment abroad.

I just—Senator Dirksen, I am not challenging any of your figures. I just throw into the consideration the range of considerations which we must have.

Senator DIRKSEN. Now, two things. I have not quite finished with that yet, that arithmetical study here. I said reduced to $456 million. Now, on February 7, this year, the U.S. Tariff Commission released data based on an analysis of imports for the year 1965, reported by the Commission. Here was the data. It shows U.S. imports when reported on a cost, insurance, and freight basis, c.i.f.—there are some men who do not know what that is—instead of f.o.b., it would be equal to 110 percent of the value of the imports as reported by the Department of Commerce. What has happened to the trade balance? It has disappeared. It is minus. It would show up minus $2 billion.

Now, if your theory is correct, then why do we not increase foreign aid by $10 billion to wipe out our troubles in the trade balance area and even our gold imbalance? It would be wonderful.

Senator JAVITS. I would like to say one thing to the Senator. I am not going to quarrel with him about the figures because you get into this tremendous argument about——

Senator DIRKSEN. I would not quarrel for the world.

Senator JAVITS. The Senator is well aware of the details of the c.i.f. and the f.o.b. argument, and so on, and the various other aspects of the matter which we have discussed. I would only say that both exports and imports should be reported on the same basis. I would also like to make one comment to the Senator out of my own experience on why you could not take up the difference by aid in some fashion. As a matter of fact, we run into a tremendous problem with that. We are doing it in Latin America right now, because the various countries do not feel, and I think very legitimately, that aid only begins to do for them what trade does in permanent terms because aid can be given and cut off at any time. They are dependent in that sense. This is not only demeaning in a sense of national integrity but it also has no substance. You are at the end of a leash, as it were, from some great power, and what these nations are urgently looking for and what it should be our great interest to supply them is an economic base, and that they can only get with some kind of liberal terms of trade.

Now, as the Senator knows, I am deeply involved in the Latin American business and this is—this comes directly out of a meeting of the Business Advisory Committee to the Organization of American States as recently as yesterday. So, I do think that again in considering the range of factors, I think there is an enormous need for American foreign policy to move over in the trade direction rather than in the aid direction.

Senator DIRKSEN. You see, in this quest, we should explore everything in the interests of our country and its future. We are growing.

Now, let us go back for a moment again to 1934. You did not hear a word about population explosion then. Today it is right around the corner and to me it is one of the most threatening things I know. For where we got the first billion in this world, I guess, what, by 1930, well, it was 80 years later before we got the second billion and then it only took 30 years to get the third billion and now fourth, fifth, sixth, and seventh billion by the year 2000 which means we are going to have 4 billion in the space of, what, 20-odd-some years, a little more, but in 9 or 10 years, just think of adding a billion and what are we going to do? We did not have that problem.

There is still another problem that we did not have at that time and I think in this field you have a special competence. You know that in Europe, for instance, the guaranteed annual wage is catching on. All right. Fifty weeks a year you have got to grind the wheels of the factory and if you cannot sell it you pile it up in a warehouse or out in the yard. But you cannot go on piling in capital forever. So, you have got to get rid of it and the propensity for dumping becomes awfully strong. How to get rid of it. And the lush markets are going to be the targets, for otherwise they will not know what to do with this merchandise, and yet they have a contract to permit them for a guaranteed wage, so the factory must run regardless.

The CHAIRMAN. May I just interrupt just this question to say I am not going to call time on any——

Senator DIRKSEN. I am going to quit right now.

The CHAIRMAN. But I would like to suggest there are many witnesses to follow and while we have good attendance I hope to get them on for obvious reasons. So I would hope we can abbreviate the exchange for the time being in order to get on to the next witnesses.

Senator DIRKSEN. This will be resumed in our next hearing.

Senator JAVITS. Thank you.

The CHAIRMAN. Senator Harris?

Senator HARRIS. No questions.

Senator JAVITS. Thank you very much.

(Telegrams previously referred to by Senator Javits and the Senator's full statement follow:)

NEW YORK, N.Y., *October 18, 1967.*

Hon. JACOB K. JAVITS,
Senate Building,
Washington, D.C.:

Regret unable comment meaningfully on proposed import legislation without having studied the bills. My own views on trade policy were sent out last July 20 before Joint Subcommittee on Foreign Economic Policy where I said, "The great promise of the Kennedy round is the effective increase in export opportunities brought about by the reciprocal reductions in foreign tariffs. I feel strongly U.S. businessmen should approach the results in this affirmative manner."

Regards,

DAVID ROCKEFELLER,
President, Chase Manhattan Bank.

BUFFALO, N.Y., *October 18, 1967.*

Hon. JACOB K. JAVITS,
Senate Office Building,
Washington, D.C.:

Our authority supports in principle unencumbered free trade and believe that no action should be taken to interfere with the free flow of international traffic.

NIAGARA FRONTIER PORT AUTHORITY.

NEW YORK, N.Y., *October 18, 1967.*

Senator JACOB K. JAVITS,
Senate Office Building,
Washington, D.C.:

I urge you to exert every effort against the possible passage of bills to impose import quotas. For too long the monkey on our economic back has been the false notion that trade restrictions insure our markets. Nothing could be more destructive to our postwar policy of an Atlantic trade partnership that has been supported by both parties. Nothing could be more harmful to the shared economic progress of the Western World.

For most of the industrial countries, rapid economic growth has come to depend in large part on rapid expansion of international trade. This is why participants in the Kennedy round worked so hard for success. Rapidly growing exports of manufactures make a rapid growth of output possible.

This is why trade in manufactured products among the industrial countries in the postwar period has been growing even faster than industrial output, which is unprecedented.

The notion that national economies are neatly divided into domestic and international business is simply without substance. The fact is that every economy benefits from a growth in trade and is hurt by a contraction in trade. Efficient business managements can understand and deal with new competition arising from tariff reduction and can take advantage of the new export opportunities. But there is no way to cope with retaliatory tariff and other trade restrictions arising out of protectionism.

The sustained downward trend of industrial tariff rates in the postwar period has helped to create a favorable trade climate among the industrial countries. Failure of the Kennedy round would have been serious, not so much because tariffs would have remained uncut, but because business confidence in the future course of trade policy would have been seriously disturbed. Such confidence is now being disturbed by the moves toward protectionism in our country. These moves seem to contradict the whole principle of the Kennedy round which we initiated.

Postwar prosperity was largely built upon the dismantling of barriers to the movement of trade. This has proved to be a sound course and should not now be reversed.

WALTER B. WRISTON,
President, First National City Bank.

NEW YORK, N.Y., *October 18, 1967.*

Senator JACOB K. JAVITS,
U.S. Senate, Washington, D.C.:

I commend you on your forthcoming appearance before the Senate Finance Committee in behalf of enlightened and liberal American foreign trade program on the basis of my experience in international business and my continued interest in U.S. trade policy toward both developed and underdeveloped countries. I believe that at no time in our history is it more important to exert strong leadership in liberalizing trade and tariffs for two reasons: Our role of responsible leadership demonstrated in the Kennedy round must be sustained both in good faith and in effective economic relations; and secondly realistic self-enlightenment suggest that we should not invite reciprocal adverse reaction from our trading partners damaging our overseas markets and export trade the Kennedy round would be irrevocably harmed in my opinion by untimely and counterproductive import quota bills and other restrictive trade actions. I urge you to do all possible to offset these proposed measures both in the interest of our own Nation and in the interest of constructive world relations.

Best wishes.

H. J. HEINZ II,
Chairman, H. J. Heinz Co., Pittsburgh, Pa.

NEW YORK, N.Y., *October 18, 1967.*

Senator JACOB K. JAVITS,
U.S. Senate, Washington, D.C.:

Thank you for your telegram notifying me of your impending testimony concerning the import quota bills now under consideration by the Senate Finance Committee. As a member of the Executive Committee of the U.S. Council of the International Chamber of Commerce, I have cosigned with the other Council members a telegram which opposes this import quota legislation. This telegram is being sent today by James A. Linen, Chairman of the U.S. Council of the ICC, to Senator Russell Long, chairman of the Senate Finance Committee. A copy of Mr. Linen's telegram is being sent to your office.

My best regards.

ARTHUR K. WATSON,
President, IBM World Trade Corp.

BOSTON, MASS., *October 18, 1967.*

Senator JACOB K. JAVITS,
Senate Office Building, Washington, D.C.:

We feel a change in the basic trade policy of desiring freer trade throughout the free world would be a mistake despite current monetary problems and urge your opposition to rigid import quotas which would surely induce retaliation abroad.

THOMAS D. CABOT,
Chairman, Cabot Corp.

PHILADELPHIA, PA., *October 18, 1967.*

Senator JACOB K. JAVITS,
Senate Office Building,
Washington, D.C.

I wish by this wire to express the strongest possible opposition to the series of individual quota bills now pending before the Senate Finance Committee. These bills collectively would vitiate the hard-won agreements obtained in the Kennedy round negotiations.

Moreover, any quotas at this time would reflect not only a lack of good faith with our negotiating partners in the Kennedy round but also a more basic lack of faith in the operations of a free enterprise economy for which we are the leading spokesman throughout the world. Freer world trade is an extension of the free competitive market which we have domestically and have espoused throughout the world. The facts testify to the effectiveness of this system. As we have progressively lowered our tariff and other trade barriers since 1933, our markets throughout the world have expanded manifold. Our economy has grown in part through sales to foreign nations.

Many U.S. industries and substantial U.S. employment depend upon sales in foreign markets which are only supported through sales by foreigners to us from foreign countries. It is misrepresentation to argue that a minor quota here or a minor quota there will not significantly influence our economic posture in the world. The adoption of any quotas at this point in time will antagonize foreign sellers and lead to retaliation that will hurt U.S. industry. Moreover, the adoption of any one quota encourages proliferation to many other quotas. There is no line which can be adequately drawn between safe quotas and unsafe quotas. The adoption of any single quota limitation on imports at this time will be publicized throughout the world as a reflection of attitude. Even industries most directly and apparently adversely affected by tariff reduction should recognize that the benefits to the U.S. economy from increased sales abroad will expand all domestic markets, including those of firms with overseas competitors.

It is difficult for anyone to document a single case where a past reduction of tariff has specifically hurt a particular industry, but our economic record of the past 30 years gives testimony to the incalculable benefits of broadening markets for American industry.

HOWARD C. PETERSEN,
Chairman of the Board, Fidelity Bank, Philadelphia, Pa.

CINCINNATI, OHIO, *October 18, 1967.*

Hon. JACOB K. JAVITS,
U.S. Senate, Washington, D.C.:

I strongly urge you to use all of your persuasiveness with your colleagues in the Senate to defeat current efforts to place import quotas on textiles and allied products. Such quotas would waste the work of the Kennedy round negotiators before the Nation has had an opportunity to judge the results of their agreements.

It would be much more prudent to gain more experience under the new agreements rather than destroy them prematurely with import quotas.

We fear the result of precipitative action would be higher prices and more limited selections of consumer merchandise.

FRED LAZARUS, Jr.,
Chairman of the Executive Committee, Federated Department of Stores, Inc.

PEORIA, ILL., *October 18, 1967.*

Hon. JACOB K. JAVITS,
Senate Office Building, Washington, D.C.:

Caterpillar strongly opposes import quota bills currently under consideration by Senate Finance Committee. Believe they would be catastrophic for U.S. foreign trade and undo many of gains of Kennedy round and other trade negotiations which have encouraged export expansion during last 30 years. They would be a serious and ill-advised step backward.

WILLIAM BLACKIE,
Chairman, Caterpillar Tractor Co.

WASHINGTON, D.C.

Senator JACOB K. JAVITS,
Senate Office Building, Washington, D.C.:

Import quota bills under consideration by Senate Finance Committee would affect at least 48 percent of U.S. imports from Japan in 1966 or $1.3 billion. Enactment of these bills would jeopardize U.S. exports to Japan valued at $2.3 billion in 1966 because Japan would have right to retaliate under GATT. It would undermine essential economic partnership between United States and Japan and thus endanger basis of our Pacific alliance.

Defeat of these import quota bills and similar restrictive legislation is imperative in the U.S. national interest.

Earnestly urge strong support of our position.

NELSON A. STITT,
Director, United States-Japan Trade Council.

WASHINGTON, D.C., *October 18, 1967.*

Hon. JACOB K. JAVITS,
U.S. Senate, Senate Office Building, Washington, D.C.:

As counsel for the American Fur Merchants Association, Inc., 224 West 30th Street, New York, leading fur dealers association in the United States, I wish to state emphatically that the association is strongly opposed to all types of import quota legislation now being considered by Senate Finance Committee before which you are appearing this week. As regards our particular product, mink fur skins, President Johnson has ordered tariff commission to ascertain all facts on mink fur industry including impact of imports on the U.S. market. To even consider imposing an import quota on mink before Tariff Commission study even starts is unthinkable. My association feels strongly that a 3-day hearing on the imposition of import quotas on a wide variety of products is at the least unfair bordering on the side of autocracy. More power to your good right arm in your fight for a continuance of the liberal international trade policy which the United States has followed for the past 30-odd years.

JAMES R. SHARP.

AMERICAN INSTITUTE FOR IMPORTED STEEL, INC.,
New York, N.Y., October 18, 1967.

Senator JACOB JAVITS,
U.S. Senate, Washington, D.C.:

The American Institute for Imported Steel, Inc. opposes all import quota legislation for all commodities unless clearly required for U.S. defense needs. There is no need for steel import quotas except to enable domestic steel industry to raise their uniform prices charged to consumers. The current protectionist drive endangers not only the achievements of the Kennedy round but the entire structure of international trade among the nations of the free world. The destruction or serious impairment of that trade would be catastrophic, and destroying ours and our trading partners' prosperity and leading to a depression. You of course have my authorization to present our views to the Senate Finance Committee.

With highest esteem and personal regards,

KURT ORBAN, *President.*

AMERICAN METAL IMPORTERS ASSOCIATION, INC.,
New York, N.Y., October 18, 1967.

Senator JACOB JAVITS,
U.S. Senate, Washington, D.C.:

The members of our organization are the leading importers of nonferrous metals. While only lead and zinc are specifically included in the pending legislative proposals for import quotas, we must record our conviction that the adoption of import quotas of any kind is destructive to our Nation, these proposals violate the very spirit of the recently concluded Kennedy round. Not only would the prestige of the United States suffer throughout the world but the entire competitive business system of our Nation will inevitably be transformed into a system of cartels aud monopolies. Those of us who have lived through the depression cannot forget the economic disintegration and despair which high tariffs helped create. We urge you to oppose vigorously all import quotas and to present our views to the Senate Finance Committee at its current hearings on quotas.

AUBREY MOSS, *President.*

AMERICAN IMPORTERS ASSOCIATION,
Washington, D.C., October 19, 1967.

Hon. JACOB K. JAVITS,
Senate Office Building, Washington, D.C.:

We urge that you, as a Senator representing hundreds of importers in New York State, oppose the quota bills during the Senate Finance Committee hearing this week.

These quota bills affect a wide variety of products and enactments by the Congress would be a complete reversal of a United States liberal trade policy since 1934. A return to protectionism could not fail to cause retaliation by other countries against American exports.

Quotas are one of the most unfair and discriminatory methods of regulating imports. Quotas are difficult to administer and impose even more Government control over an economy which claims to be based on free enterprise. Quotas create an artificial economic environment and once enacted survive long beyond the circumstances they were intended to alleviate.

GERALD O'BRIEN,
Executive Vice President.

COMMITTEE FOR A NATIONAL TRADE POLICY,
Washington, D.C., October 18, 1967.

Senator JACOB K. JAVITS,
U.S. Senate, Washington, D.C.

As executive director of committee for a national trade policy nonpartisan organization devoted to liberalization of world trade in U.S. national interest congratulate you on what we know your testimony October 18 before Senate

Finance Committee will be. You are one of very few Senators who are unqualified supporters liberal U.S. trade policy without departure in deference to special interest groups, yesterday we sponsored meeting of representatives of some 100 national organizations and corporations favoring freer trade they represented millions of people in the United States and we are convinced that the same broad consensus for freer trade still exists in this country as it did in 1962. Import restriction bills being considered by Finance Committee are the worst way for government to respond to problems of foreign competition. They are inconsistent with enterprise system and would go far to reverse the trade policy this country has followed since 1934. They lead to a cartel system. Retaliation from our trading partners should be expected against our exports amounting to several billion dollars in trade coverage. These bills are irresponsible legislation and if enacted would make impossible the kind of world trade cooperation developed over the last 30 years.

JOHN W. HIGHT,
Executive Director.

PREPARED STATEMENT OF HON. JACOB K. JAVITS, A U.S. SENATOR FROM THE STATE OF NEW YORK

Javits Scores Return to "Log Rolling" on World Trade

Mr. Chairman, I am very appreciative of the opportunity to appear before the committee this morning in opposition to measures proposing quotas on various items of imports into the U.S. There is grave suspicion in the world that the bills now pending before this Committee, signal a new wave of protectionist sentiment in the U.S., reversing our Post War trade policy in favor of a species of log rolling and favor swapping that the world thought had gone out thirty years ago.

Personally, I am persuaded that should these quota bills be enacted into law, they *would* undermine the basis of our postwar policy of trade liberalization and that this, in turn, could return us to the international trade wars of the 1930's and a continuous round of retaliation and counter-retaliation until the economic wealth of the world economy itself would be imperiled.

These quotas pose other dangers to the United States economy:

1. They would result in higher prices for millions of U.S. consumers and thereby contribute to inflation;

2. They would endanger billions of dollars worth of U.S. exports and thereby worsen our balance of payments position, contribute to unemployment and loss of profits;

3. They threaten individual enterprise and would impose even more government controls and bureaucracy on U.S. industry than at present.

They would create new difficulties for the industries they are ostensibly protecting—if past experience with quotas is a good guide to the future—because they are inflexible.

I am also strongly opposed to these bills because I consider the well-publicized plan of the sponsors to append them to the Social Security bill very damaging to the hopes of a large segment of the American people, our senior citizens. In the end, this may not be done—particularly if the counsel of many leaders on both sides of the aisle is followed. But if it is attempted, it should be clear that they would jeopardize a well-earned social security "raise" before those Americans who spent their life in hard work and deserve more decent retirement incomes.

In recent months there has been much said in the Senate about the usurpation by the Executive Branch of the powers of Congress in the field of foreign trade. It seems to me the new protectionist drive for import quotas in turn represents an execessive use of Congressional power on behalf of certain industries at the expense of the public at large and the nation.

As a legislator, I have an obligation—as have other members of Congress—to concern myself with the problems of my constituents resulting from strong foreign competition. For these and other reasons I have supported measures coming before the Senate which contributed to their economic health, such as the 1964 tax cut, the 7% investment tax credit, small business loans and the adjustment assistance provisions of the Trade Expansion Act of 1962.

But, I also believe that members of Congress have an obligation to assure that the solutions they support to help their constituents are based on objective evidence; (the Tariff Commission was created by Congress expressly for that purpose) are tailored specifically to help sectors of industry claiming serious import injury; and are consistent with the over-all national interest. I do not believe that across-the-board quotas covering an entire industry or import limitations achieved by allegedly "voluntary" international or bilateral agreements reached with supplying nations is the way of going about helping injured industries and displaced workers.

My own prescription for sectors of industry hurt by imports consists of: (1) adjustment assistance in line with Title III of the Trade Expansion Act, but substantially liberalized by making a favorable finding for this purpose easier than at present and by providing more liberal loans, tax benefits and retraining programs for workers in the injured firms or sectors of industry. This avenue has by no means been exhausted; (2) a Federally-supported program to attack the basic causes of obsolescence, either directly through a modernization fund or by guarantees or subsidies to commercial banks and private investors which undertake significant modernization programs in industries threatened by obsolescence which cannot otherwise help themselves; and (3) the elimination of government policies, such as "'two-price cotton" which contribute to difficulties of certain industries facing foreign competition.

Lest I am accused of being entirely altruistic, I wish to give another reason—a very practical reason—for my opposition to these quotas. If enacted, they would on balance seriously undermine the foundation of my own state of New York's welfare and economy—our commerce with the rest of the world. As far as New York is concerned, this commerce consists of an estimated $1.5 billion in manufactured exports originating in the state in addition to more than $75 million in agricultural exports originating in the state; substantial imports of raw materials and parts needed for products manufactured in the state; $15.9 billion of foreign commerce shipped through the Port of New York for destinations all over the United States. According to a study made by the First National City Bank recently, an estimated 375,000 jobs are involved in loading, unloading, trucking and producing these goods in the Port of New York area. Millions of dollars in income for the steamship lines, airlines, railways, truck carriers, banks, insurance companies, freight forwarders, customs brokers and tax revenues for the local, state and federal governments are also involved. It can be seen clearly how gravely restrictions on U.S. foreign commerce could hurt New York's economy as well as that of the nation.

I do not wish to go over the ground covered very effectively by representatives of the Executive Branch yesterday. But I would like to identify several key points in the debate.

The appearance of temporary relief for certain U.S. industries from import competition by mandatory quotas should not be confused with permanent improvement in the U.S. trade position. On the contrary, these quotas will very likely worsen our trade position.

The value of imports involved in those quota proposals already introduced—namely for steel, lead and zinc, meat, textiles, footwear, electronic products, hardwood plywood, ground fish, strawberries and honey—totalled $3.6 billion in 1966. Quota proposals involving a tightening up of already existing quotas—namely cotton textiles, petroleum, and dairy products—involved another $2.7 billion in imports, with the two categories covering an estimated $6.3 billion of our 1966 imports or 25% of our total import of merchandise that year. This does not mean that this amount of imports would be eliminated. This only indicates that this much of our imports would be exposed to drastic cuts. It must also be emphasized that for every restriction we impose on certain imports, an equivalent limitation on our exports can be expected to be imposed by other countries on some U.S. industry, unless we give concessions of equal value in other areas. Now, which industry shall be selected to pay for higher protection on steel, oil, textiles and so forth?

Let us consider, for example the steel industry's case for increased protection. By every measure I have seen, the steel industry is in pretty healthy condition. Shipments of steel mill products for example have increased from 71 million tons in 1962 to 90 million tons in 1966. Employment has increased from 521,000 in 1962 to an estimated 576,000 in 1966. Total dividends paid by the steel industry have increased from $445 million in 1963 to $484 million in 1966 according to the American Iron and Steel Institute, and according to the same source, profits per each dollar of revenue have stayed at 6% in 1965 and 1966. It is true that imports during the past two years have totaled close to 11% of domestic consumption of steel. However, it seems to me that an industry which has 89% of a market is doing pretty well indeed. It is also true that in the past three or four years steel exports have declined. However, if the millions of tons of steel purchased each year in the United States for manufactured products destined for eventual export is included in steel export data, the industry's export position appears in a better light. The import-export equation for steel mill products changes considerably if this factor is taken into account. Such data for two industry classifications, machinery and transport equipment, show a net export surplus of between two to two and a half million tons of steel a year! The industry's capital expenditures in 1966 were $2 billion and now are projected around $2½ billion this year. With increased utilization of the oxygen process of steel making and more efficient and competitive distribution facilities, this industry is in an excellent position to face competition from abroad more effectively. As Secretary Trowbridge pointed out in his testimony yesterday, the reason for increased imports in the last four or five years has been the heavy demand for steel accompanied by more diverse purchasing by some large users who, fearing a domestic shortage, are looking for price advantages, meet their needs by buying both foreign and domestic steel.

In other words, one of the major reasons for higher steel imports are domestic steel shortages resulting from strikes and other reasons. In the absence of such imports serious bottlenecks and price increases could result in significant damage to important steel users in this country. The quotas could also result in higher steel prices which would inevitably lead to increase in use of competing materials such as plastics, copper, aluminum, concrete and paper.

In this connection, I would urge this Committee to consider the claim made by the American Institute for Imported Steel that it is automation in the steel industry rather than imports that has been the principal contributor to the loss of jobs. They cite the closing last year by the U.S. Steel Corporation of its last remaining mill in Donora, Pennsylvania, and by Jones and Laughlin Company which in March of 1966 shut down a nail plant at Aliquippa, Pennsylvania as another factor for loss of jobs in the industry. They also claim that an ever smaller number of production workers are required to produce an increasingly quantity of steel again contributing to job losses.

I would also suggest that the Committee consider the recent evidence put forth by Congressman Thomas Curtis of Missouri who has claimed that between 4 to 10% of steel imports in 1966 were by American steel producers themselves, who needed imports to break production bottlenecks in a year of exceedingly strong demand for steel.

In conclusion, I cannot emphasize strongly enough that quotas, while ostensibly assisting an industry in trouble, result in increased government controls over industry, increase the need for more bureaucracy and inject new inflexibilities into an industry. The administration of quotas requires a tremendous amount of paper work with questions arising daily over the specific application of the quota such as clearing commodities for withdrawal, determining when a quota has been filled, collection of fees and other charges, payments of refunds, and the administration of specific provisions of the quota including country of origin markings, chemical analyses, port of entry charges, immediate delivery of perishable goods, dock strikes, etc. One of the big problems with the lead and zinc quotas, for example, was that smelters were unable to acquire sufficient quantities of ore of the grades necessary for their smelting operations. The surplus lead and zinc situation which was a problem that lasted for over 15 years changed to one of shortage. Italy, for example, which had an allocation under the original quota proclamation, chose not to fill it. Since there was no provision for reallocating unused quotas, the total supply for the domestic market was decreased while other supplying countries were prevented from increasing their exports to the United States. I could cite other examples of licensing difficulties, of problems involving evasion of quotas which underline the short-sightedness of these quota proposals.

I hope that the pressures now put on Congress for quotas will serve one useful purpose—as a warning to the Administration that substantial segments of U.S. business are dissatisfied with present world trade patterns and the non-tariff barriers they face abroad. Except for the anti-dumping code the Kennedy Round scarcely touched the vital area of non-tariff barriers. Yet these are the real inhibitors of expanded and liberalized world trade.

New quotas are not the way to reduce or eliminate non-traiff barriers abroad. They would only compound the problem. But we should take heed that unless and until U.S. trade negotiators go up against their foreign counterparts to hammer out agreements to open up protected European and Japanese home markets pressure for U.S. quota legislation will continue to plague us.

U.S. trade officials know well the variety of subtle and tacit devices by which the foreign industrialized nations exclude or restrict U.S. products from their home markets, all the while demanding free and open access to American markets.

The urgent need for U.S. trade policy is to work on behalf of expanded U.S. exports into protected foreign markets. Non-tariff barriers must be the prime target of this policy.

Both this nation and our trading partners must recognize that this is an age of interdependence between the economies of dozens of nations. As the leading industrial nation of the world, the U.S.—in its own self-interest—must do all it can to contribute the the freer competition in world trade, not to lead the way in erecting trade barriers that will, in any event, be no more effective than the original Wall of China.

(S. 2332, a bill to promote the general welfare, foreign policy, and national security of the United States, follows:)

PETROLEUM IMPORTS*

90th CONGRESS
1st Session

S. 2332

IN THE SENATE OF THE UNITED STATES

August 23, 1967

Mr. Long of Louisiana (for himself, Mr. Allott. Mr. Anderson, Mr. Bayh, Mr. Bennett, Mr. Burdick, Mr. Byrd of West Virginia, Mr. Carlson, Mr. Curtis, Mr. Dominick, Mr. Eastland, Mr. Ellender, Mr. Fannin, Mr. Hansen Mr. Harris, Mr. Hartke, Mr. Hruska, Mr. McGee, Mr. Mansfield, Mr. Metcalf, Mr. Monroney, Mr. Montoya, Mr. Morton, Mr. Pearson, Mr. Randolph, Mr. Stennis, Mr. Tower, Mr. Yarborough, and Mr. Young of North Dakota) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To promote the general welfare, foreign policy, and national security of the United States.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the national security provision (19 U.S.C.A. 1862) of the Trade Expansion Act of 1962 be amended by adding the following new subsections:

"(c) Imports of petroleum into districts I-IV shall not exceed 12.2 per centum of production of crude petroleum and natural gas liquids in those districts during the most recent

II

*Witnesses testifying on this subject, pp. 258-361.
Communications received by the committee on this subject, pp. 361-406, p. 1139, and p. 1155.

appropriate period for which United States Bureau of Mines statistics are available.

"(f) Imports of petroleum into district V shall be limited so as to encourage development of district V production and use of domestic supplies in that district, but in no event shall the maximum level of overseas imports, which shall be subject to allocation, be greater than the amount necessary, when added to domestic supply available to the district and to the volume of overland imports into the district which shall be exempt from allocation, to approximate total district V demand. Determination of supply-demand relationships in the district shall be made by the United States Bureau of Mines for appropriate periods.

"(g) Imports of petroleum into districts I–IV and district V, other than crude petroleum, shall be progressively reduced.

"(h) As used in this Act:

"(1) 'Petroleum' shall include crude petroleum and natural gas liquids, and finished and unfinished products thereof except residual fuel oil for use as fuel.

"(2) 'Imports' shall include 'imports for consumption' as reported by the United States Bureau of the Census and shipments (A) from Puerto Rico, the Virgin Islands, and Guam into the United States, and (B) into any foreign-trade zone located within the United States.

"(3) 'Districts I-IV' means the District of Columbia and all the States of the United States except those States within district V.

"(4) 'District V' means the States of Arizona, Nevada, California, Oregon, Washington, Alaska, and Hawaii."

"(i) The President, upon a finding that a national emergency threatens the adequacy of fuel supplies to meet national requirements, may modify or suspend the quota established by subsection (c) for a period not to exceed six months.

The CHAIRMAN. Our next witness has been allotted 50 minutes. These are witnesses from the oil industry, Mr. F. Allen Calvert, president of the Independent Petroleum Association of America.

I would urge that Mr. Calvert would take the seat in the middle here and the gentlemen with him take the seats that he would suggest for them. We had enough requests for testimony on the oil problem to have taken this committee 2 or 3 weeks. We urged the industry to abbreviate its testimony and to combine its statements so it could present its views in the minimum possible time.

In addition to that we urge the opponents who will be represented here to do the same thing and they have graciously accommodated us. We appreciate it very much, and we have provided equal time for both. So we will first hear the case in the affirmative for the oil import legislation and then we will hear the case against an import quota.

STATEMENT OF F. ALLEN CALVERT, PRESIDENT, INDEPENDENT PETROLEUM ASSOCIATION OF AMERICA, ACCOMPANIED BY CLINTON ENGSTRAND, KANSAS INDEPENDENT OIL & GAS ASSOCIATION; STARK FOX, INDEPENDENT OIL & GAS PRODUCERS OF CALIFORNIA; BENJAMIN CUBBAGE, INDEPENDENT OIL PRODUCERS & LAND OWNERS ASSOCIATION, TRI-STATE, INC.; NETUM STEED, PRESIDENT, TEXAS INDEPENDENT PRODUCERS & ROYALTY OWNERS ASSOCIATION; AND RICHARD CAMPBELL, CHAIRMAN, LIAISON COMMITTEE OF COOPERATING ASSOCIATIONS

The CHAIRMAN. These witnesses are Mr. F. Allen Calvert, president of the Independent Petroleum Association of America; Mr. Clinton Engstrand, who speaks for the Kansas Independent Oil & Gas Association; Mr. Stark Fox, who speaks for the Independent Oil & Gas Producers of California; Mr. Joseph McGuire speaks for the Independent Oil Producers & Land Owners Association of the Tri-State area, Indiana, Illinois, and Kentucky; Mr. Netum Steed, who is president of the Texas Independent Producers & Royalty Owners Association; and Mr. Richard Campbell, Chairman of the Liaison Committee of Cooperating Associations.

Mr. Calvert, we are going to allow you 25 minutes, Mr. Engstrand, 3 minutes, Mr. Fox, 5 minutes, Mr. Joe McGuire, 5 minutes, Mr. Steed, 7 minutes and Mr. Campbell, 5 minutes and I want to thank you gentlemen for the tremendous cooperation that you have given to this committee in arranging your presentations to be consolidated and limiting yourself so closely to a brief statement.

Senator HARRIS. Mr. Chairman, could I just say we are very proud in Oklahoma that the present president of the Independent Petroleum Association of America is from our State. F. Allen Calvert is a man of the highest reputation in our State, known as a highly knowledgeable and very capable person, and I certainly commend him and what he has to say to this committee. We are glad to hear him.

Mr. CALVERT. Thank you. Senator Harris.

Mr. Chairman, distinguished members of this committee, particularly my own State Senator, Fred Harris, it is a privilege to be here.

I thank you for the time. The chairman has explained he has allotted 50 minutes for our group. We have 17 organizations endorsing our statement, as follows:

1. Independent Oil & Gas Producers of California.
2. Independent Oil Producers & Land Owners Association, Tri-State, Inc. (Indiana, Illinois, and Kentucky).
3. Kansas Independent Oil & Gas Association.
4. Kentucky Oil'& Gas Association.
5. The Land and Royalty Owners Association of Louisiana.
6. Michigan Oil & Gas Association.
7. National Stripper Well Association.
8. North Dakota Independent Oilmen & Landowners Association.
9. North Texas Oil & Gas Association.
10. Ohio Oil & Gas Association.
11. Oklahoma Independent Petroleum Association.
12. Panhandle Producers & Royalty Owners Association.
13. Pennsylvania Grade Crude Oil Association.
14. Permian Basin Petroleum Association.
15. Southwestern Pennsylvania Oil & Gas Association.
16. Texas Independent Producers & Royalty Owners Association.
17. West Central Texas Oil & Gas Association.

My name is Allen Calvert. I live in Tulsa, Okla. I appear today as president of the Independent Petroleum Association of America, which is a trade association, representing several thousand producers of oil and gas throughout the United States, as well as landowners and royalty owners.

The purpose of our testimony is to support S. 2332.

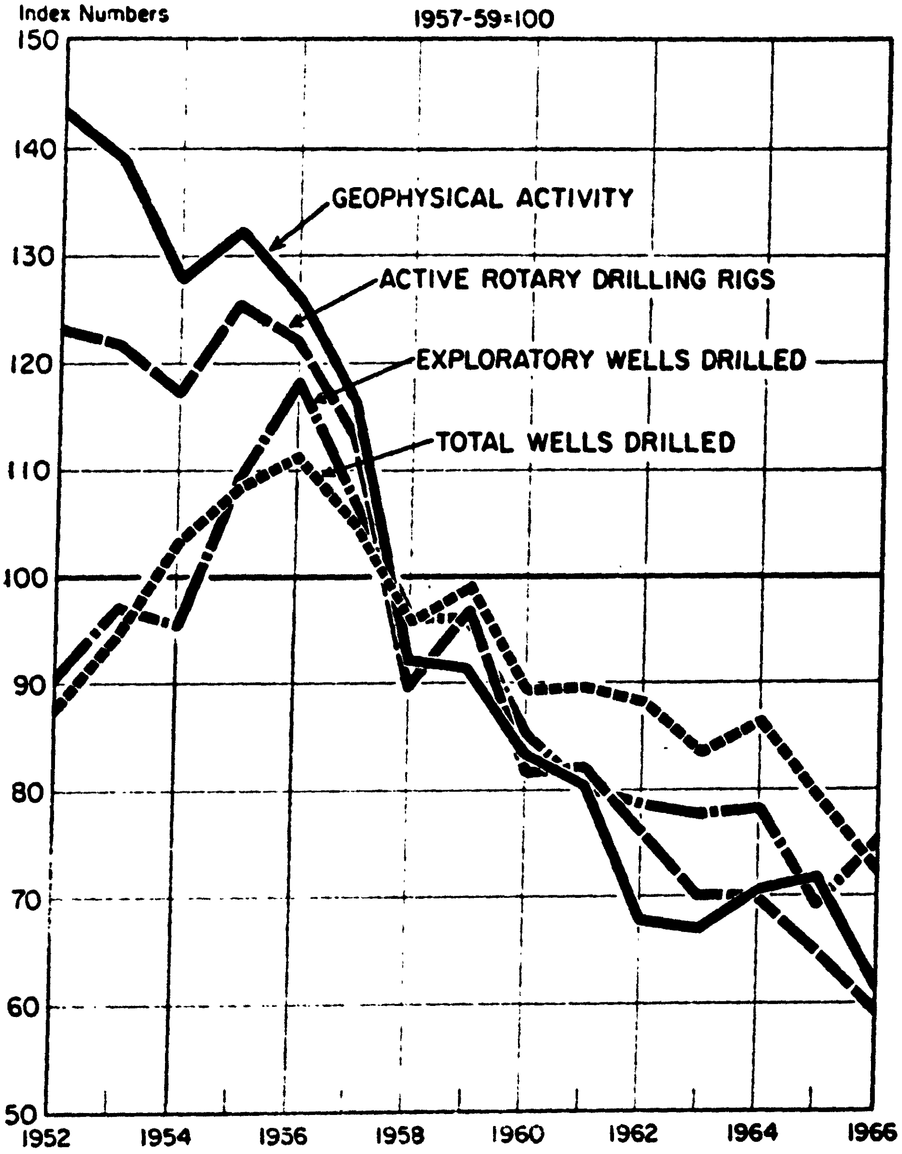
The mandatory oil import program is based upon the congressional delegation of authority to the President set forth in the national security provision of trade law, as now contained in section 232 of the Trade Expansion Act of 1962. This provision of law has but one purpose—the safeguarding of the national security. This authority was exercised to establish the oil import program for the expressed purpose of maintaining a healthy and vigorous petroleum industry in the United States. The current Middle East crisis serves dramatically to remind us of the wisdom of this policy.

The mandatory oil import program has been in effect since 1959. It is our firm conviction that the program has been vital to our national security as to oil. Nobody could have supported us in this conclusion so strongly as Secretary Udall, who appeared yesterday. He certainly showed the role the program played in making possible the response of our industry and our Government to the crisis. And no one could have awarded more laurels.

We as an association have strongly supported the program and cooperated with the Government to improve its effectiveness. We have endeavored to the utmost with the Government agencies concerned, particularly Secretary Udall and Assistant Secretary Cordell Moore and their staff, to improve its effectiveness. However, last November we concluded that further legislation was necessary if the objectives of the national security provision of the law are to be attained. Developments during 1967 have underscored the need for congressional action. We, therefore, were encouraged greatly by the introduction of S. 2332 and the holding of these hearings. It seems to us that in the interest of good government it is most appropriate that the Congress at this time review the program after 8-years experience and if that experience so dictates, provide more precise legislative guidelines.

Despite the contribution that has been made by the mandatory oil import program, the health and vigor of the domestic petroleum producing industry has suffered a persistent deterioration. The declining trends and depressed conditions which the industry has suffered are shown in the following chart:

TRENDS IN U.S. PETROLEUM EXPLORATION AND DEVELOPMENT, 1952-1966



IPAA CHART
October 1967

The CHAIRMAN. I would like to urge all Senators to take a look at that chart. I regret you do not have a big one so the audience could see it.

Mr. CALVERT. This chart shows that the major indicators of the industry's health have progressively declined as this chart consists of a series of stairs as follows: geophysical activity down 38 percert, active rotary rigs dowл 40 percent, exploratory wells down 24 percent, total wells down 27 percent, employment down 15 percent and crude oil price down 4 percent since the 1957–59 period.

The CHAIRMAN. May I just make this point and I will not interrupt you further. Your chart is based on a 1957–59 average but if you go back and use 1952 as your base period, your geophysical activity, for example, has gone down from a base of about 143 down to a present figure of about 60. Now, that is the people you have in the field trying to find oil, seismograph crews and that sort of thing.

Mr. CALVERT. Right.

The CHAIRMAN. And your active rotary rigs have gone down from 122 to about 60. Why do you use just rotary rigs?

Mr. CALVERT. There are a lot of rigs called "cable tools" which are used in the shallow areas but the rotary rigs are the ones drilling most of the wells and finding most of the reserves. We are finding fewer reserves because we are drilling less. There also have been changes within the drilling pattern of the industry for deeper depths. Nevertheless, we are finding less oil, Mr. Chairman, and all of these declining trends parallel our presentation and prove the deterioration of our industry. We will get into the reserve picture later.

The CHAIRMAN. I want to make that point. You talk in terms of rotary rigs. I thought you were going to say the reason you use the rotary rigs is that those are the ones that bring in 95 percent of the oil or at least, the overwhelming bulk.

Mr. CALVERT. Yes, or more than that, maybe 98 percent.

The CHAIRMAN. These little cable rigs are just like driving a nail in the ground. You can go down just so far and after that the resistance is so heavy, the skin friction of the spike in the ground, that you just cannot go any further with it. But if you are going down deep, you have to use a rotary rig.

How deep is it practicable to go with cable wells?

Mr. CALVERT. Cable wells, I believe, have gone as deep as 5,000 or 6,000 feet, but there would be 15 rotary rigs at that depth to one cable tool.

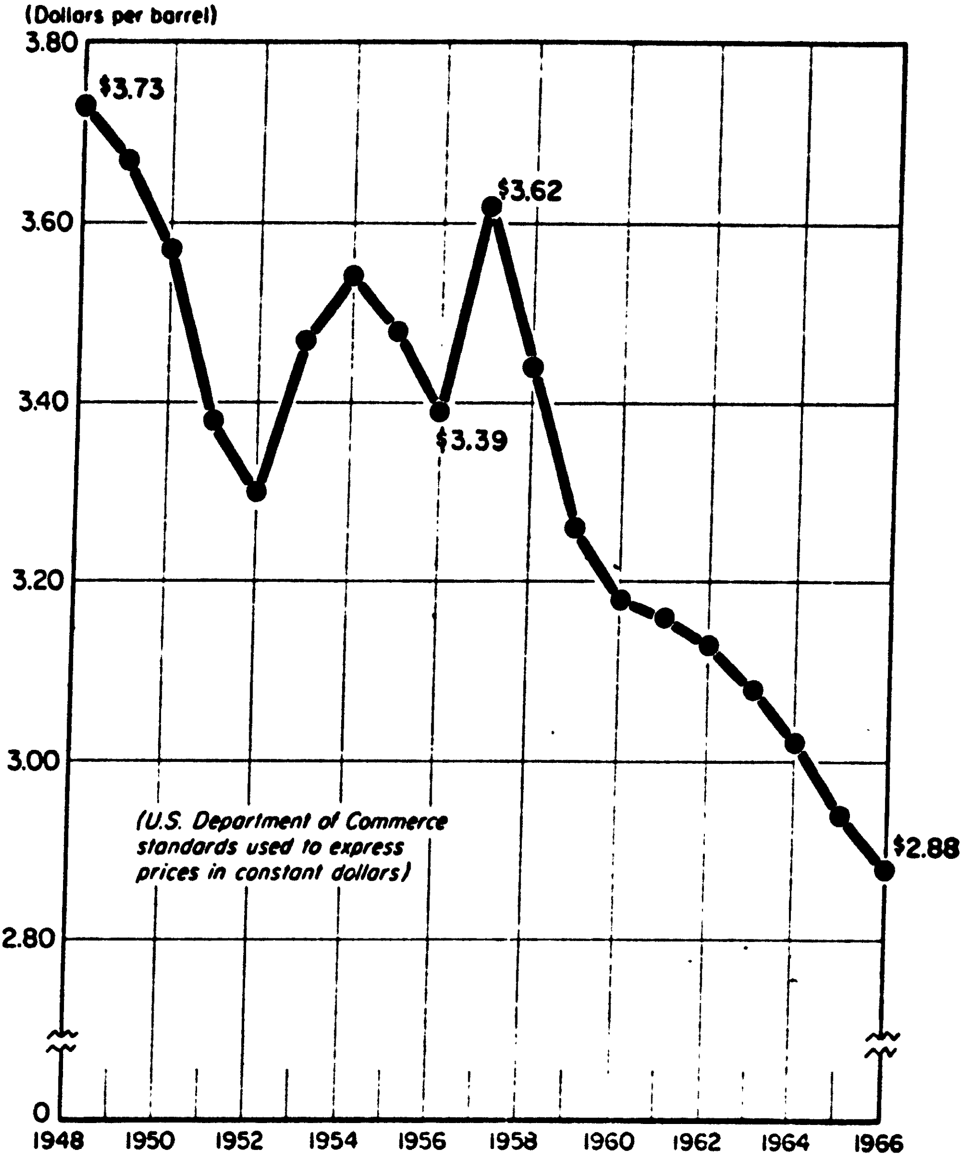
The CHAIRMAN. So that with regard to your rotary rigs that produce 98 percent of the oil, the number that are active has gone down from an index of about 123 in 1952 to about 60 in 1966. It has been cut in half.

Mr. CALVERT. Yes, in half. The chart gives you a clear picture of that.

The second chart shows what has happened to the buying power of a barrel of oil over the period covered which is from 1948 to 1966. This chart shows an erosion of 51 cents per barrel below the 1956 price. That is what has happened to the purchasing power of the commodity we have been drilling for.

REAL PRICE OF CRUDE OIL

(In Constant 1966 Dollars)



(U.S. Department of Commerce standards used to express prices in constant dollars)

IPAA CHART
October 1967

As a result of the sharp declines in exploratory activity in the United States, the amount of new crude oil reserves found and developed in recent years has not kept pace with production. Proved reserves are becoming seriously inadequate to meet the increasing requirements of the future.

During the 7 years 1960 through 1966, domestic crude oil production amounted to 18.32 billion barrels. New reserves found and developed during this period totaled 18.05 billion barrels. As a result, proved reserves declined from 31.72 billion at the beginning of 1960 to 31.45 billion barrels at the end of 1966. The ratio of proved reserves to yearly production dropped from 12.8 in 1960 to 10.9 in 1966.

More important, the volume of crude oil reserves being found and developed has averaged 2.6 billion barrels per year during the past 7 years, in contrast to an average of over 4.5 billion barrels per year estimated by the Interior Department as needed to meet future demands and maintain a stable reserves-production ratio. In short, there is a pressing need to encourage the discovery of additional U.S. oil reserves. We feel the Government, the Interior Department particularly, know this and is making every effort to find an answer.

Senator DIRKSEN. Mr. Chairman, can I put in one question before I go to the floor?

Even if quotas were imposed administratively, this precipitous drop in petroleum activity, I presume, would still continue because you couldn't tell when the quotas might be changed. And you simply couldn't venture stockholders' money and shareholders' money on a hazard of that kind.

Mr. CALVERT. We intend to make that exact point later in the statement, Senator Dirksen, but the stability is the main objective we want in congressional guidelines. There are so many threats to the present program which to date has been quite successful, just as Secretary of the Interior Udall said yesterday—but his Department is faced with so many threats that we are afraid the fallout from the threats will break the 12.2 quota. The Secretary agrees that the program has worked. We agree it has worked. And we are going to make the case, after he has made the case for the necessity of the program, why we think there should be congressional guidelines to take the heat off his back.

Thank you, Senator Dirksen.

Mr. Chairman, those of you on the committee heard Secretary Udall yesterday state how the U.S. domestic industry is responding to the Middle East crisis. I think the Secretary used the phrase that the industry met the increased production needed "without breaking stride." The amount needed happened to be 47 million barrels. Half of that went to Europe to take the place of the oil that the Arabs denied them. About half of it went to our New England area and east coast to take the place of the foreign oil that was interrupted by the embargo and the boycott, and a smaller amount went to Canada.

Some may wonder, How did a declining industry respond to the Middle East crisis without breaking stride? We will to make the point that oil that is produced, delivered, and processed today, going in a jet airplane or to the filling station—60 percent of that oil was found before 1950. It was found in the good days and was found before the trends began to decline. And that is the point—if there is going to be a Middle East crisis 10 years from now, unless we find a way of reversing the trend, the producibility, and the reserve capacity that we had to call on this time won't be there 10 years from now. That is the point we want to make and emphasize.

The petroleum producing industry, by its very nature, is a long term undertaking. From the time exploratory efforts are first begun until reserves are developed, normally requires some 5 years, and very often a much longer period. It is obvious, therefore, that the first prerequisite of the import program is to properly serve its national security objective, the one that Senator Dirksen just mentioned, is to provide assurance to domestic producers that the program has long-range stability. It is for the purpose of providing such assurance that further legislation in this area is now proper and advisable in our opinion.

Changes have been made in the mandatory import program and other governmental actions have been taken involving the program to serve objectives extraneous to the national security. As a result of the cumulative effect of these actions, there is widespread concern, particularly in our ranks, but also in the ranks of larger companies as well, that the program is losing the essential ingredient of long-range stability.

This widespread concern was emphaticallv expressed in the hearings held last May before the Department of the Interior.

I would now like to review some of the changes and actions which in our opinon demonstrate the need for further legislative guidelines to provide long-range stability. These are the problems that are knocking on the door of Secretary Udall and Assistant Secretary Cordell Moore. The Secretary is doing a good job and is fighting these problems. But these problems we think are piling up and becoming insurmountable, despite the fact that he has been able to hold the line with the 12.2 ceiling to this point. Some of the problems illustrating the need for legislation are:

1. Production base for import quota.—Proclamation 3541 dated June 10, 1963, revoked the provision that required the maximum level of imports into district I–IV be based on actual production during a prior period, and provided, in lieu thereof, that imports be based on estimated future production. Actual production is preferable because it is free of the uncertainty involved in estimating procedures and because imports would not increase until there was an actual increase in domestic production. The most disconcerting aspect of this change in the proclamation was that the only apparent reason was to avoid a reduction in imports that otherwise would have been required.

Since 1963, under that formula there is always a leakage which allows a little more foreign imports and a little more oil from Kuwait or Libya or, you name it, to come in and a little less oil sold by an operator at Abilene or Wichita Falls, or Oklahoma City.

The CHAIRMAN. I wish you would include some place in Louisiana, like Bossier Parish or Morgan City or just Lake Charles, just any place.

Mr. CALVERT. I haven't been lucky enough to get any oil there, Senator Long, but I will include it in the next reference.

2. Foreign-trade zones.—Proclamation 3693, dated December 10, 1965, delegated to the Secretary of the Interior authority over the movement of foreign oil into foreign-trade zones in the United States. On September 12, 1966, the Foreign-Trade Zones Board, consisting of the Secretary of Commerce, as chairman, the Secretary of the Treasury and the Secretary of the Army authorized the establishment of a foreign-trade zone at Bay County, Mich., for the operation of a petrochemical plant. This action was sought in order to obtain access to imported petroleum feedstocks that could not be obtained under the mandatory oil import program. The action was taken by the Board in the face of vigorous and widespread protest by many parties, including our association. On March 23, 1967, the Foreign-Trade Zones Board authorized a second foreign-trade zone at Taft, La.

By these precedents, in our opinion, the Board is committed to approval of similar applications. This is most disturbing, in that during the public hearings on these two applications, many companies engaged in the manufacture of petrochemicals had testified that in the event these applications were approved, then they would be compelled for competitive reasons to seek similar treatment, thereby presenting the prospect of a proliferation of such applications.

One of the companies proposing to operate in the foreign-trade zones has had an application for several months before the Secretary of the Interior, seeking approval to move foreign oil into one of these foreign-trade zones. So far, to our appreciation, the Secretary of the Interior has not acted, although he had three other Cabinet officers say "Do it." This confirms, in our opinion, the Secretary's dedication to the program, but how long is he going to withstand the pressure?

The CHAIRMAN. In other words, at that particular point he was holding out against three other Cabinet members?

Mr. CALVERT. Yes, sir; and so far he has not authorized the introduction of feedstocks into foreign-trade zones.

3. Petrochemical Allocations.—Proclamation 3693, dated December 10, 1965, amended the program for the purpose of providing allocations of crude oil and unfinished oils to chemical companies which had not been eligible. Previously, such allocations were made only to refiners. Petrochemical plants do not use crude oil as feedstocks.

This action, therefore, set the precedent of granting crude oil quotas to companies that do not use crude oil. But even more disturbing, the action taken to bring chemical companies into the program was based on economic considerations unrelated to national security as to our oil supplies.

Secretary Udall emphasized in his appearance yesterday that national security was the purpose of this program, that the GATT relationship with other countries permits us to put quotas on if national security is involved.

4. Imports of unfinished oils.—Proclamation 3693 dated Decem ber 10, 1965, revoked the requirement that imports of unfinished oils could not exceed 10 percent of total imports. The proclamation delegated authority to the Secretary of Interior to determine the limit on unfinished oil imports. Subsequently, a general limit of 15 percent has been established; but, in the case of petrochemical plants, up to 100 percent may be allocated in the form of unfinished oils. There is no national security justification for unfinished oil imports that only came into being during the voluntary import program in 1957–58 as a circumvention of the restriction on crude oil imports.

5. Department of Commerce actions.—During the past 3 years officials of the Department of Commerce have advocated that chemical companies be given increasing access to imported oil as feedstocks for pretrochemical plants. These officials have been concerned with maintaining the chemical industry's exports in the interest of the balance-of-payments problem, a matter of proper interest to the Department, of course.

The Department circulated a questionnaire to chemical companies, as a basis of obtaining evidence to support their position. The questionnaire, in our opinion, lacks objectivity in that the form of the questions is such as to invite answers that would support the claims of the Department of Commerce. These actions, coupled with the actions of the Secretary of Commerce, acting as Chairman of the Foreign-Trade Zones Board, illustrate again the efforts being made to use the oil imports program for purposes unrelated to its national security objectives as to oil supplies.

The CHAIRMAN. Can you illustrate that point? If not, just supply it for the record. I just wondered if you could illustrate the point.

Mr. CALVERT. These chemical companies, which are certainly one of our largest businesses, have heretofore, as I understand it, been able to get their feedstocks from domestic and gas companies. In recent years oil companies have gone into the petrochemical business and there have been other demands for these supplies. It is more difficult to negotiate for these feedstocks that were in other years more available to them and at better prices.

Now, they are feeling the economic pinch just as we are feeling the economic pinch in a different area, and they are trying to find a way to get lower cost feedstocks.

The CHAIRMAN. Let me just illustrate one point. I have had representatives of the chemical companies come to me and say:

> We have been thinking about this problem and we can't over any period of time sustain a much higher cost of feedstocks than our competitors in foreign countries. Now, something must be done about this, Senator.

And they would propose what an answer should be.

Now, you have had them come to you and discuss that as a representative of the oil industry. You have heard me suggest—and I am sure you have made suggestions of other ways—that the problem could be met where it would not have to come out of the lifeblood of the independent and domestic oil producer. There are other ways to do it.

But now, if the Department sends out a questionnaire which says, "Look, are you in favor of having to pay a higher price for feedstocks than your foreign competitor," naturally they are going to say, "No; I am opposed to it 1 million percent."

But if you said, "Now, as between two answers, which do you think would be more appropriate, to keep the domestic oil industry in business and keep the chemical industry in business," they might have said, "We think it would be best that they both survive."

Is that kind of thing you are talking about?

Mr. CALVERT. We are sympathetic to their problem simply because it is a problem like problems we have. If they can't prove it is connected with national security, though, we think they are going to have facetiously tell them, "Go out and buy a $100-million concession off southern Louisiana and get in the oil business and develop your own."

That may not be the solution to their problem but we think the point of national security is important.

Senator MCCARTHY. Will you explain to us what you mean by "national security"?

Mr. CALVERT. Well, a Presidential proclamation, Senator McCarthy, was issued in 1959 after a Cabinet study of several years and that proclamation was based on the finding and declared policy that self-sufficiency in oil and gas was a vital necessity to this country. We must not become dependent on the 2-cent-a-barrel oil, or a nickel or dime a barrel, attractive as it may be in price but unreliable, that is developed in Libya and Kuwait. We used to be a net exporter of oil, and now we are sharing the U.S. oil market by allowing imports to take approximately 22 percent.

Of all the oil our civilian economy and our Army uses, totaling 12 million barrels daily, about 2,500,000 barrels come from foreign shores. So we have surrendered some 22 percent.

Senator MCCARTHY. I don't see how that bears on national security. You start out with an economic question and when you come back to your own defense, you relate it to national security.

Mr. CALVERT. Well, sir, I can make a national security case.

Senator MCCARTHY. What is that?

Mr. CALVERT. What about the Middle East crisis? What about the American oil companies that formed an emergency committee under the direction of the Interior Department to assure the delivery of the 25 million barrels of oil to Europe that had been denied by the Arab nations.

Senator MCCARTHY. Well, it seems to me we responded pretty well.

Mr. CALVERT. It was to our national security's benefit to have oil available in this country.

Senator MCCARTHY. There was no rationing of gasoline at home.

Mr. CALVERT. Certainly not, and it was a flower in our hat that there wasn't. We had a reserve capacity.

Senator MCCARTHY. There was still a great reserve capacity beyond that which you are called upon to use. I don't see how your case relates to national security. This is my point. And since you use the word so often, I would just like to have some clarification.

Mr. CALVERT. It is the whole genesis of this program, sir.

Senator MCCARTHY. That is right, but you suggest that if we did something for the balance of payments, that this might run against the concept of national security. There are some people who worry about the dollar more than they do now about cents.

Mr. CALVERT. Well, we are worrying about the dollar, too. There is about a $2 billion imbalance in the balance of trade, due to oil imports coming in daily. But if we don't have oil to fill both our military and civilian needs in a time of crisis, what is that if it isn't national security?

Senator MCCARTHY. Well, we are not approaching that, are we? I mean what kind of projection are you making as to the time at which that might be true.

Mr. CALVERT. Well the Federal Government by Presidential proclamation has determined that national security relies on a healthy industry in the United States. We cannot rely on Arab oil, as was proven when the Suez was closed. We can't rely totally on Venezuelan oil when enemy submarines are operating.

Senator MCCARTHY. We don't have.

Mr. CALVERT. It will probably be missiles overhead next time, but the basic consideration will still be national security.

Senator McCARTHY. Do the military say they think we are in danger now because of the policy of the Interior Department on oil?

Mr. CALVERT. We have had no occasion to touch base with them recently, Senator McCarthy.

Senator McCARTHY. They are worrying all the time about national security.

Mr. CALVERT. Yes, and worried all the time about seeing that we have the oil available and the transportation to get it to the ports.

Senator McCARTHY. I have never heard anyone suggest that the present oil policy is tending toward a situation in which the national security would be endangered because of a possible shortage of oil.

Mr. CALVERT. The trends as to our oil supplies are shown in a National Petroleum Council study that was printed in January.

Senator McCARTHY. Do the Joint Chiefs subscribe to it?

Mr. CALVERT. The echelons of the military interested in oil supplies are represented at the meetings of the council.

Senator McCARTHY. How do you mean, "represented"? You mean, you talked to——

Mr. CALVERT. They attend the meetings of the National Petroleum Council. With the military using a million barrels of oil a day, or one-tenth of what we are producing, they are vitally interested in oil supply, sir, as to national defense.

Senator McCARTHY. I am sure they are, but it is a question of how much supply they are interested in. If you have any documentary evidence or statements defining the national security in relation to oil supplies in the program you are talking about, I hope you will put it in the record.

Mr. CALVERT. I will put it in the record, Senator. I appreciate your interest and I will certainly put it in the record, and in your mail box, too.

Senator McCARTHY. You don't have to do that. Just for the record.

(Pursuant to the above discussion the committee received the following information:)

INDEPENDENT PETROLEUM ASSOCIATION OF AMERICA,
Washington, D.C., October 20, 1967.

Hon. RUSSELL B. LONG,
Chairman, Senate Committee on Finance,
New Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: During the hearings of the Senate Finance Committee on Thursday, October 19, 1967, Senator Eugene J. McCarthy asked witness F. Allen Calvert to submit for the record the national security basis for limiting oil imports as is now being done under the mandatory Oil Import Program.

This letter is submitted in response to that request.

The applicable law which is the basis for the national policy to limit petroleum imports in the interest of national security is set forth in Section 232 of the Trade Expansion Act of 1962, 19 U.S.C.A. 1862 (which superseded Section 7 of the Trade Agreement Extension Act of 1955, as amended). The pertinent paragraphs of this law are as follows:

> "(b) Upon request of the head of any department or agency, upon application of an interested party, or upon his own motion, the Director of the Office of Emergency Planning (hereinafter in this section referred to as the 'Director') shall immediately make an appropriate investigation, in the course of

which he shall seek information and advice from other appropriate departments and agencies, to determine the effects on the national security of imports of the article which is the subject of such request, application, or motion. If, as a result of such investigation, the Director is of the opinion that the said article is being imported into the United States in such quantities or under such circumstances as to threaten to impair the national security, he shall promptly so advise the President, and, unless the President determines that the article is not being imported into the United States in such quantities or undei ,uch circumstances as to threaten to impair the national security as set forth in this section, he shall take such action, and for such time, as he deems necessary to adjust the imports of such article and its derivatives so that such imports will not so threaten to impair the national security.

"(c) For the purpose of this section, the Director and the President shall, in the light of the requirements of national security and without excluding other relevant factors, give consideration to domestic production needed for projected national defense requirements, the capacity of domestic industries to meet such requirements, existing and anticipated availabilities of the human resources, products, raw materials, and other supplies and services essential to the national defense, the requirements of growth of such industries and such supplies and services including the investment, exploration, and development necessary to assure such growth, and the importation of goods in terms of their quantities, availabilities, character, and use as those affect such industries and the capacity of the United States to meet national security requirements. In the administration of this section, the Director and the President shall further recognize the close relation of the economic welfare of the Nation to our national security, and shall take into consideration the impact of foreign competition on the economic welfare of individual domestic industries; and any substantial unemployment, decrease in revenues of government, loss of skills or investment, or other serious effects resulting from the displacement of any domestic products by excessive imports shall be considered, without excluding other factors, in determining whether such weakening of our internal economy may impair the national security."

The national policy to limit petroleum imports was formulated after long and careful study and consideration as to the impact of imports on the domestic petroleum producing industry and the national security.

During World War II, the Petroleum Industry War Council was created under the Petroleum Administration for War, to act as an advisory body to the government on problems affecting the oil industry.

At the conclusion of the war, and at the last session of this agency, on October 24, 1945, the following resolution was adopted by that Council.

"WHEREAS, during the emergency just ended, in order to meet accelerated war requirements, this nation found it necessary to import abnormal quantities of crude oil and refined products from foreign sources; and

"WHEREAS, the future of the domestic petroleum industry in this country depends on the maintenance of sufficient reserves and the productivity of its many fields, thereby enabling the industry to meet all the requirements incident to an expanding domestic economy; and

"WHEREAS, the continued importation of large quantities of crude oil and products at prices below the cost of production in this country would have a depressing effect on exploration, development and production in the domestic industry;

"NOW, THEREFORE BE IT RESOLVED, by the Petroleum Industry War Council, assembled on this the 24th day of October, 1945, in Washington, D.C., that it does declare that in the public interest and that in the interest of maintaining national security it should be the policy of this nation to so restrict amounts of imported oil so that such quantities will not disturb or depress the producing end of the domestic petroleum industry, and only such amounts of oil should be imported into this country as is absolutely necessary to augment our domestic production when it is produced under conditions consonant with good conservation practices."

Soon after World War II Congress began to investigate and give extensive consideration to the status of the domestic petroleum industry and how imported foreign oil affected this industry.

On January 31, 1947, The Special Senate Committee Investigating Petroleum Resources, in Senate Report No. 9, 79th Congress, concluded as follows:

"In the final analysis, the reserves within our own borders are more likely than not to constitute the citadel of our defense.

"It follows that nothing should be done to weaken the productive capacity of domestic reserves, and that every possible step should be taken both to increase these reserves and continuously to develop them to such a degree as would occasion no regret in the event of war."

* * * * *

"This nation now faces two alternatives:

Either—

"1. To await with hope the discovery of sufficient petroleum within our boundaries that the military requirements of the future will occasion no concern, and in the meantime to depend upon foreign oil and trust that war will not cut off our imports;"

Or—

"2. To take steps to guarantee a domestic petroleum supply adequate for all eventualities by means of:

"(a) Incentives to promote the search for new deposits of petroleum within the boundaries of the United States and in the continental shelf; and

"(b) The continuation of the present program looking to the manufacture of synthetic liquid fuels to supplement our domestic crude supply.

"All the facts before us impel the choice of the second alternative."

On January 13, 1949, the National Petroleum Council, established under the auspices of the Federal Government as the official oil industry advisory body to the Federal Government, outlined a set of fundamental principles as essential to a national oil policy. These principles, which were formulated by the Council at the request of the Secretary of the Interior, were adopted unanimously by the Council.

The very first of these fundamental principles was as follows:

"* * * The national security and welfare require a healthy domestic oil industry.

"Continuing supply to meet our national oil needs depends primarily on availability from domestic sources. Due consideration should be given to the development of foreign oil resources, but the paramount objective should be to maintain conditions best suited to a healthy domestic industry which is essential to national security and welfare."

The Defense Production Administration, established as a result of the Korean conflict, in January, 1953, issued its studies regarding defense matters in a report entitled "Background for Defense, Expanding our Industrial Might," stating as follows:

"The machines of peace and war run on petroleum. A program to expand American industry substantially and keep it operating at top capacity requires constantly increasing quantities for fuel, for lubricants, and for many chemicals made from petroleum—everything from toluene for TNT to wax for packagings. Greater industrial activity and peak levels of employment demand more and more gasoline for airplanes, automobiles, trucks, tractors, and buses, and more diesel fuel for locomotives.

"The defense program will by 1953 boost our petroleum needs to some 8,200,000 barrels a day as contrasted with 6,800,000 barrels a day used in 1950—a better than 20 percent increase.

"If we are to meet the needs, we shall have to drill more wells each year than ever before in our history. We shall have to expand the refineries where crude oil is made into gasoline and fuel oil and the other finished petroleum products. We shall have to enlarge our transportation facilities to move the crude petroleum to the refineries and the finished products to consumers."

In May of 1953, Secretary of the Interior McKay, in appearing before the House Ways and Means Committee, stated as follows:

"I recognize the importance of domestic petroleum production to national defense and the contribution it makes to the National economy and that of the oil-producing states. I also realize that the petroleum industry is unique in that discovery and development of new reserves constitute a major and vital activity of the industry. Oil and gas produced must be replaced by a vigorous and progressive search for new reserves or the Nation's ability to produce petroleum would rapidly deteriorate.

"I recognize how important it is that the strength of the domestic industry be maintained. To maintain this strength requires an economic climate that promotes the competition, progress, and technological development that has brought the industry to its present high degree of capability. The domestic industry today is undergoing a period of readjustment. The rate of growth in demand has leveled off after the rapid gains which followed the Korean outbreak. At the same time the expansion of supply has brought about a more normal reserve capacity. Demand is now dropping seasonally at the close of a warm winter. Domestic production has been reduced in recent months, and *there should be a corresponding cut in imports*. There is evidence that already the industry is effecting such adjustments." Italic supplied)

As the flood of foreign oil increased, the President became concerned and took action.

On July 30, 1954, the President established an Advisory Committee on Energy Supplies and Resources Policy. The activities of this committee, as well as that of succeeding Presidential Cabinet committees appointed to study this matter and also actions of the Congress, are reviewed in the report to the President, copy enclosed, of the Director, Office of Civil and Defense Mobilization, dated July 21, 1959.

The foregoing constitutes a summary of the history of developments which led to the finding by the President in Proclamation 3279, dated March 10, 1959, that imports of petroleum should be limited so as not to "threaten to impair the national security."

Very truly yours,

L. DAN JONES.

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF CIVIL AND DEFENSE MOBILIZATION,
OFFICE OF THE DIRECTOR,
Washington 25, D.C., July 21, 1959.

The Honorable the PRESIDENT OF THE SENATE,
U.S. Senate,
Washington, D.C.

DEAR MR. PRESIDENT: I am transmitting to you herewith pursuant to Section 8(d) of the Trade Agreements Extension Act of 1958, 19 USC 1352a, PL 85-686, a report respecting the disposition of the request of the Secretary of State and of the Deputy Secretary of Defense each dated January 22, 1959 for an investigation of imports of crude oil and its derivatives and its products in keeping with Section 8(b) of that Act.

A copy of this report is being sent today to the Speaker of the House of Representatives.

Sincerely,

LEO A. HOEGH.

REPORT OF INVESTIGATION OF IMPORTS OF CRUDE OIL AND ITS DERIVATIVES AND PRODUCTS

(Submitted pursuant to sec. 8(d) Trade Agreements Extension Act of 1958, 19 USC 1352a, Public Law 85-686, August 20, 1958)

1. This is a report of the investigation made by the Director of the Office of Civil and Defense Mobilization (OCDM) of the effect on the national security of imports of crude oil and its derivatives and products.

2. The investigation was made, as required by Section 8(b) of the Trade Agreements Extension Act of 1958, 19 USC 1352a, PL 85-686, August 20, 1958 (hereafter referred to as the 1958 Act), in response to the request made by the Secretary of State and the Deputy Secretary of Defense by letters dated January 22, 1959. Paragraph 8(d) of the 1958 Act provides that upon the disposition of each request, a report shall be made and published.

3. Following the receipt of such letters of request, the Director of OCDM announced on January 28, 1959 that he had undertaken the investigation. He caused notice thereof to be published in the Federal Register of that date. (Copy of notice is Exhibit 1 hereto.)

4. The making of such investigation and the publication of such notice were in conformity with OCDM Regulation 4 which the Director of OCDM, pursuant to paragraph 8(d) of the 1958 Act, had caused to be published in the Federal

Register on January 15, 1959, as revised by amendment published in the Federal Register on January 28, 1959. (Copies of Regulation 4 and such amendment are Exhibit 2 hereto.)

PRINCIPLE SOURCES OF INFORMATION AND ADVICE

5. The following are the principal sources of information and advice of which the Director of OCDM availed himself in the course of his investigation of the whole question of oil imports and their relation to the national security:

(a) The record of the Government's involvement in the matter from the time of the appointment of the Presidential Advisory Committee on Energy Supplies and Resources Policy in 1954 to the time of the certification by the Director of the Office of Defense Mobilization (ODM) in 1957 that he had reason to believe that the level of imports of crude oil threatened the national security.

(b) The record of the later actions by the Government, including the President's appointment in June 1957 of the Special Committee to Investigate Crude Oil Imports and the subsequent operation of the voluntary crude oil import limitation program and its extension to unfinished gasoline and unfinished oils.

(c) A series of tables supplied by the Department of the Interior depicting the situation in the oil industry over the past ten years, including the most recent figures then available.

(d) Expressions of view respecting the limitation of oil imports received from the Departments of State, Defense, Interior, and Commerce.

(e) More than 130 formal statements, letters, and telegrams received during the study from oil companies and other interested parties offering many points of view and a mass of comment, opinion and data, as well as the views of a number of industry officials and others who appeared in person. (Provision for the submission of such material was made in OCDM Regulation 4, as amended.)

GOVERNMENT'S EARLY INVOLVEMENT IN THE MATTER

6. The Government has been concerned with the trend toward increasing oil imports at least since 1954. The problem of oil imports, and their effect upon the petroleum industry, was one of the primary reasons which led the President on July 30, 1954 to establish the Cabinet Committee on Energy Supplies and Resources Policy (later changed to Presidential Advisory Committee on Energy Supplies and Resources Policy). In addition to its chairman, the Director of ODM, the Committee was composed of the Secretaries of State, Treasury, Defense, Justice, Interior, Commerce and Labor. The announcement of the formation of the Committee said:

"At the direction of the President the Committee will undertake a study to evaluate all factors pertaining to the continued development of energy supplies and resources and fuels in the United States, with the aim of strengthening the national defense, providing orderly industrial growth, and assuring supplies for our expanding national economy and for any future emergency."

7. On February 26, 1955, following the report of a task force appointed by the Director of ODM, the Presidential Advisory Committee issued a Report on Energy Supplies and Resources Policy in which it recommended that if in the future the imports of crude and residual fuel oils should exceed significantly the respective proportions that such imported oils bore to the domestic production of crude in 1954, appropriate action should be taken. And it recommended further that the desirable proportionate relationships between imports and domestic production be reviewed from time to time in the light of industrial expansion and changing economic and national defense requirements. In arriving at these recommendations, the Committee said:

"An expanding domestic oil industry, plus a healthy oil industry in friendly countries which help to supply the United States market, constitute basically important elements in the kind of industrial strength which contributes most to a strong national defense. Other energy industries, especially coal, must also maintain a level of operation which will make possible rapid expansion in output should that become necessary. In this complex picture both domestic production and imports have important parts to play; neither should be sacrificed to the other.

"Since World War II importation of crude oil and residual fuel oil into the United States has increased substantially, with the result that today these oils supply a significant part of the U.S. market for fuels.

"The Committee believes that if the imports of crude oil and residual oils should exceed significantly the respective proportions that these imports of oils bore to the production of domestic crude oil in 1954, the domestic fuels situation could be so impaired as to endanger the orderly industrial growth which assures the military and civilian supplies and reserves that are necessary to the national defense. There would be an inadequate incentive for exploration and the discovery of new sources of supply.

"In view of the foregoing, the Committee concludes that in the interest of national defense imports should be kept in the balance recommended above. It is highly desirable that this be done by voluntary, individual action of those who are importing or those who became importers of crude or residual oil."

8. After considerable debate in Congress on the subject of petroleum imports during discussion of the Trade Agreements Extension Act of 1955, PL 86, 84th Congress, approved June 21, 1955 (hereafter referred to as the 1955 Act), Section 7 of the 1955 Act, which was the predecessor of Section 8 of the 1958 Act, was added to read in part:

"(b) In order to further the policy and purpose of this section, whenever the Director of the Office of Defense Mobilization has reason to believe that any article is being imported into the United States in such quantities as to threaten to impair the national security, he shall so advise the President, and if the President agrees that there is reason for such belief, the President shall cause an immediate investigation to be made to determine the facts. If, on the basis of such investigation, and the report to him of the findings and recommendations made in connection therewith, the President finds that the article is being imported into the United States in such quantities as to threaten to impair the national security, he shall take such action as he deems necessary to adjust the imports of such article to a level that will not threaten to impair the national security."

9. In a letter to oil importers on August 5, 1955, the Director of ODM called attention to his responsibilities under the 1955 Act and to the recommendations of the Presidential Advisory Committee and requested figures on imports for the first seven months of 1955 and a statement of the prospective import policy of each company for the balance of 1955 and for the first half of 1956. By further letter of September 12 he indicated that in the absence of individual voluntary action over and above that already taken the Government would be required to seek other means of implementing the recommendations of the Presidential Advisory Committee. And on October 29, 1955, he wrote that if substantial conformity with the Presidential Advisory Committee's recommendations was to be achieved, importers of crude oil should reduce their planned imports for the last three quarters of CY 1955 by approximately 7%.

10. Through the greater part of 1956 the industry was periodically urged to reduce imports of crude, but without success. Imports scheduled for the last half of the year, as the Director of ODM noted on September 7, would considerably exceed those for the first half rather than accomplish the requested reduction below the first half. These results the Director reported as disappointing.

11. As a consequence of the increased level of imports scheduled for the last half of 1956, the Independent Petroleum Association of America (IPAA) filed a petition on August 7, 1956 requesting action under Section 7 of the 1955 Act.

12. After the petition had been filed, the Director of ODM announced that a public hearing would be held at which all interested parties would be provided with the opportunity of presenting their points of view. This hearing began on October 22, 1956, and was conducted by the General Counsel of ODM. Representatives of persons and groups favoring and opposing action under Section 7 were heard. In addition, at the request of ODM, representatives of oil importing companies made statements relative to their plans for the future.

13. Early in December 1956 the Director of ODM announced that he was suspending action on the case because of the changed conditions growing out of the Suez crisis. At the same time, however, he made this statement.

"Import programs of the importing companies recently filed with the ODM show that the plans they had formulated for 1957, if carried out, would be contrary to the Committee's recommendations and would constitute a threat to our national security. This situation, without other intervening circumstances (the Suez crisis), would have left no course for me but to make certification to the President under Section 7 of the Trade Agreements Extension Act of 1955."

14. In the meantime on October 17, 1956, the Presidential Advisory Committee

had reaffirmed its earlier findings that imports (in this case for 1957) should not be permitted to exceed significantly the proportion that these imports bore to the production of domestic crude in Districts I–IV in 1954.

15. Following the Suez crisis, the figures on planned imports for the balance of 1957, which were requested in March, showed a situation even more serious than that which prevailed before the Suez crisis, as the new schedules were considerably higher than those submitted for the fall of 1956.

16. Confronted with this situation the new Director of ODM (the Honorable Gordon Gray) on April 23, 1957 wrote the President:

'Upon the basis of present imports and their trend over the last several years, together with forecasts of their trend in the next few months, I do hereby advise you, pursuant to Section 7 of the Trade Agreements Extension Act of 1955, that I have reason to believe that crude oil is being imported into the United States in such quantities as to threaten to impair the national security."

17. In replying to the Director of ODM on April 25, 1957, the President said he agreed on the basis of available information that there was reason to believe that crude oil was being imported in such quantities as to threaten to impair the national security and that he proposed to make an investigation. But he requested that while this investigation was proceeding careful examination be made of the possibility that imports could effectively be limited by voluntary action, a course to which there were advantages.

MORE RECENT ACTIONS BY THE GOVERNMENT

18. On June 26, 1957 announcement was made of the President's appointment of a committee to make this investigation. This was called the Special Committee to Investigate Crude Oil Imports, and was chaired by the Secretary of Commerce and composed in addition of the Secretaries of State, Defense, Treasury, Interior and Labor.

19. The report which the Special Committee made on July 29, 1957 supported the certification of the Director of ODM in finding that the increased volume of imports and the volume proposed for the last half of 1957 did threaten to impair the national security, and recommended to the President:

"that unless the importing companies comply voluntarily with the import limitation plan hereinafter set forth, you find that there is a threat to the national security within the meaning of Section 7 of the Trade Agreements Extension Act of 1955. Pending the outcome of this voluntary program, this Committee should continue as now constituted."

20. In arriving at this result, the Special Committee found a direct relationship between the nation's security and adequate and available sources of energy, noted that oil and gas accounted for two-thirds of all the energy consumed in the U.S., and concluded that if the United States was to have enough oil to meet its national security needs, there must be a limitation on imports that would insure a proper balance between imports and domestic production. Moreover, the committee reviewed and rejected the following proposals based on a policy of permitting imports to follow whatever course they might take:

(a) that the United States might import foreign crude oil and store it here within depleted fields or elsewhere;

(b) that the Government should enlarge its participation in the exploration for oil reserves and, on discovering new reserves, withhold them from production, and

(c) that increased imports should be encouraged in order to conserve the natural resources of the United States.

21. The voluntary program recommended by the Special Committee involved a cut-back by all importing companies in Districts I–IV of 10% below their average crude oil imports for the years 1954, 1955 and 1956. The recommendation as to District V was that no voluntary import limitations should be imposed but that the situation be reviewed during the latter part of 1957. Moreover, it was proposed that an exception be made for small importers and companies which had started to import since 1954 so that they might participate on a basis more equitable than if the cut-back had been applied to them. In December 1957 on the recommendation of the Special Committee, the voluntary program was extended to imports into District V.

22. In March 1958 by Executive Order 10761 the program was strengthened by imposing the requirement that each vendor to the Government certify that he would comply in all respects with the voluntary program.

23. In June 1958 the Special Committee concluded that the program should be extended to unfinished gasoline and other unfinished oils. The last mentioned action followed the letter from the Director of ODM to the President of May 28 that he concurred in the judgment of the Special Committee that it should have cognizance of all aspects of the importation of petroleum *and its products* in order to enable the Committee effectively to discharge its responsibility with respect to crude oil.

24. Imports of residual fuel oil which were not covered by Mr. Gray's certification of April 23, 1957 were the subject of continuing review by the Presidential Advisory Committee which in several meetings between September 1957 and June 1958 concluded that the level of imports of residual fuel oil did not constitute a threat to the national security.

25. On August 20, 1958, as previously indicated, the Trade Agreements Extension Act of 1958, Section 8 of which superseded Section 7 of the 1955 Act, was approved.

26. On December 22, 1958, in its Interim Report, the Special Committee stated that it would present for consideration certain recommendations for revisions or changes in the Voluntary Oil Import Program. Pending submission of these recommendations, and with the approval of the President, importers were advised that no changes would be made through February 28, 1959 in crude oil allocations under the Voluntary Oil Import Program and also were requested to continue through that date to limit to their present allocations the importation of unfinished gasoline and other unfinished oils.

27. The requests made by the Secretary of State and the Deputy Secretary of Defense that the Director of OCDM, pursuant to said Section 8, make an appropriate investigation to determine the effects on the national security of imports of crude oil and its derivatives and products were made at the instance of the Special Committee.

CURRENT DATA ON IMPORTS AND DOMESTIC ACTIVITY

28. Following his decision to make the present investigation, the following figures [*] were at his request supplied to the director of OCDM by the Office of Oil and Gas of the Department of the Interior:

PRODUCTION (DISTRICTS I-V)

[Thousands of barrels per day]

	1954	1955	1956	1957	1958
Crude oil	6,342	6,807	7,151	7,170	6,709
IMPORTS (DISTRICTS I-V)					
Crude oil	656	782	934	1,023	953
Residual	354	416	445	475	498
Unfinished	21	15	7	3	92
Other	21	34	49	71	152

The January 1959 figures for crude oil and residual fuel oil were:

Imports (districts I–V):

Crude oil	925
Residual	844

The Office of Oil and Gas, in making the following figures available, specified that the number of wells completed during the last few years has been depressed somewhat by the growing practice of producing from several formations at different depths from a single "well".

[*] Although the figures originally supplied for 1958 and January 1959 were "preliminary", the final corrected figures are given herein.

NUMBER OF WELLS DRILLED DURING YEAR (DISTRICTS I-V)

	1954	1955	1956	1957	1958
Oil	29,773	31,567	31,158	28,164	25,262
Gas	3,977	3,613	4,115	3,912	3,674
Dry	19,168	20,742	21,838	20,701	18,822
Service	1,012	760	1,049	1,061	1,353
Total	53,930	56,682	58,160	53,838	49,111

The January 1959 figure as to all wells drilled was:

Number wells drilled (districts I–V)	4,654
Domestic demand (districts I–V) (thousands of barrels per day):	
1954	7,760
1955	8,460
1956	8,779
1957	8,818
1958	9,065
Reserves (districts I–V) (millions of barrels):	
1954	29,561
1955	30,012
1956	30,435
1957	30,300
1958	30,536

29. From these figures it appeared that notwithstanding the effectiveness of the voluntary limitation plan, the quantities and circumstances of oil imports had not been stabilized. Particularly as to the principal crude oil derivatives and products, import quantities had increased during the life of the voluntary program and the circumstances of at least a considerable portion of such increased imports suggested circumvention of the intent of the limitation program. Moreover, for the period 1954 to 1958 the domestic demand for petroleum products increased 16.8% while domestic crude oil reserves were increasing only 3.3%. In the opinion of the Director of OCDM this deterioration in the reserve-demand ratio threatened an insufficiency in the domestic supply of petroleum for the requirements of an expanding industrial economy and, in turn, for the requirements of national security. It appeared that there was a direct relationship between this decline and the fall-off in exploratory drilling and that this fall-off in exploratory drilling was itself related to the quantities and circumstances of crude and products importation from areas of very much greater proven reserves where production costs were very substantially lower than costs in the United States.

ADVICE FROM EXECUTIVE DEPARTMENTS

30. As to the effect of imports on drilling operations, which the above figures show declined in 1958 for the second consecutive year, the Acting Secretary of Commerce (the Honorable Frederick H. Mueller) had this to say:

"It is my considered opinion that the present rate of imports of crude oil and its derivatives and products are a major contributing factor to the decline in drilling operations both for exploration and development in the search for new oil reserves. This decline has been caused mainly by the inability to finance such drilling because of the unprofitable outlook for such domestic production in the face of competition with much cheaper foreign oil and products. Continuation of this trend will inevitably result in a lowering of our available reserves."

And to the same effect, the Acting Secretary of Defense (the late Donald A. Quarles) in writing the Director of OCDM said:

"The facts, in my opinion, do not support the argument that national security would be best served by import limitations per se, but they do support the conclusion that imports should be held within the bounds necessary to maintain a healthy, vigorous domestic industry and, specifically, to encourage active exploration for further domestic sources of oil."

COMMUNICATIONS FROM INTERE. TED PARTIES

31. Attached Exhibit 3 contains a list of the governmental units, companies, trade associations and other persons who filed formal statements, letters or telegrams offering comment, opinion or data relevant to the investigation. Those submitting this material, as well as the industry officials who called personally on the Director or members of his staff, were representative of a broad cross section of the petroleum industry, both as to type of operation and size, and of other industries, including coal, which believed themselves affected favorably or unfavorably by limitation of petroleum imports. Because many of the statements dealt with more than one type of import, e.g., crude oil, residual fuel oil, and high asphalt content crude oils, and presented differing points of view as between these types, it is not feasible to list by number those taking a particular position.

CONCLUSIONS

32. In the light of the foregoing facts, it was concluded that the situation had not improved since the certification of crude oil by the Director of ODM in April 1957, notwithstanding the operations of the voluntary import limitation plan, and that were it not for the voluntary import program, oil imports generally would have risen drastically.

33. It was further concluded that in the current world oversupply situation, excessive quantities of low-priced oils from offshore sources were seeking a U.S. market and that in such a situation, without control of production in relation to demand by the countries of origin, there would be substantial economic incentives to increase imports into the United States.

34. It was further concluded that the consequence would be to upset a reasonable balance between imports and domestic production, with deleterious effect upon adequate exploration and the development of additional reserves which could only be generated by a healthy domestic production industry.

CERTIFICATION

35. As a result of the investigation made by the Director of OCDM pursuant to Section 8 of the Trade Agreements Extension Act of 1958, the President was advised on February 27, 1959 of the Director's determination that crude oil and the principal crude oil derivatives and products were being imported in such quantities and under such circumstances as to threaten to impair the national security.

The CHAIRMAN. May I just make this point because I studied this problem, too, and the legislation on this. If we had a nuclear war, we anticipate all of our big refineries would be targets, and they would be knocked out immediately. We would have to carry on our struggle with our small independent refineries, which are just not big enough to justify the enemy concentrating atomic weapons on them, and that is about all we would have left.

Do you have any military estimates of what we would have left in refining capacity in a nuclear war if the enemy hit the targets that he would find it wise to hit from his point of view?

Mr. CALVERT. Senator Long, I have seen overlays which weren't confidential, showing the areas where the missiles might strike, but I don't know. I might guess 20 or 30 percent of our refining capacity may lie in the areas that wouldn't be under the first strike, but I am not much of an authority on that.

The CHAIRMAN. The problem is, they wouldn't leave the big refineries in business.

Mr. CALVERT. We have no idea.

The CHAIRMAN. They wouldn't leave us in the refining business at Baton Rouge, La., where we have some big refineries. We would be in the target area.

Mr. Calvert. Yes.

The Chairman. Bayonne, N.J., would certainly get it, wouldn't they?

Mr. Calvert. They would.

The Chairman. And Houston, Tex., would pick up one for that same reason as well as a number of others. If you look at where the big refineries are, we anticipate in the event of a nuclear war the enemy would hit all those. So all you have left is a lot of small refineries to fight your war with. Now, the military would estimate, as I understand it, that whatever they need, in terms of oil, they will find a way to get it. It may be by taking every drop away from civilians.

They would take it for the planes to fight the enemy and the missiles to fight the enemy. They would come first.

Mr. Calvert. Right.

The Chairman. So if there is none left, the civilians would just have to go without. But the importance of this industry in a nuclear war would be that at least you have something to fight with. They would want to keep enough capacity alive so they would have what it would take to carry on.

Now, if you have a nonnuclear war, if mankind reaches sanity and decides it is not going to fight nuclear wars then we estimate that all of our foreign sources would be cut off, do we not? In other words, if we have a nonnuclear war with the Soviet Union, we are not going to get oil out of Venezuela. Their submarines are too many and too good to let us get an appreciable amount of oil from Venezuela, and none from Saudi Arabia. Is that about right?

Mr. Calvert. That is right.

The Chairman. That being the case, we estimate we can get oil out of our ally, Canada. If Mexico wants to show appreciation for what we have been doing for them, we can get some out of Mexico, and that is just about all we have in addition to what you fellows can produce domestically.

Mr. Calvert. That is about what is available in the Western Hemisphere, yes.

The Chairman. Now, an argument can be made for an oil industry on national defense. Other industries have not been able to sustain their case, that they are sufficiently imperiled to invoke this national defense legislation, but an argument cetrainly can be made for the steel industry. But now, can you tell me as between the two, which would present the problem most immediately, your fuel or your steel?

Mr. Calvert. I wish the military were here answering, but I think they would say the oil because it is the wheels and transportation that gets the steel and armaments and everything else to the objective.

The Chairman. Well, if you don't have the steel, then you can't get the additional guns, the additional bullets, the additional vehicles to fight the war with, and the additional weapons you need; but if you don't have the oil, you can't even move the ones you do have. Isn't that about the size of it? So both of them are vital.

Mr. Calvert. Right.

The Chairman. But one of them brings you to a halt quicker than the other. The tank is not worth much if you can't move it, is it?

Mr. Calvert. General Patton found that out.

The CHAIRMAN. Nor is an airplane.

Senator WILLIAMS. You can make an excellent argument, and I don't underestimate the importance of your industry, but is it not a fact that the same thing could be true of many other industries when we get right down to it, that each in itself would be essential and without them we could not operate a war?

I recognize if you had, for example, no food, what is the use of having oil if you've got no food? If your defense plants go up, you have got no planes. So I, like the Senator from Minnesota, wish you would explore that a little further, because without minimizing the importance of the industry itself, nevertheless, I think the same argument could be made on many other industries if you take that in its entirety and just assume for the moment you are going to do away with it.

Mr. CALVERT. I believe the same argument could be made to a great degree, Senator Williams, by other industries. However, the studies that were made in the fifties, when the oil import program was inaugurated, resulted in a finding that national security was threatened by oil imports and a Presidential proclamation was issued establishing a program to limit oil imports.

Now, whether the other industries have the facts to develop this kind of a posture, I don't know, sir.

The CHAIRMAN. May I interrupt just to ask you this one thing: Is it not true that after World War I, Winston Churchill made the statement that the fact that the Allies had the oil and the Germans didn't, was the largest single factor in dictating an Allied victory in that war, as far as resources were concerned?

Mr. CALVERT. If he didn't, we would have been disappointed. I think he did.

Senator CARLSON. On this point, I think that the point that has been raised right at this time is most important to this hearing, and that is the guarantee of sufficient oil in case of emergencies in the future and this trend in U.S. petroleum exploration, this chart that you have here, must convince anyone, based on the knowledge of the industry going back to 1952 on to 1966. It was in 1967, Secretary Udall stated yesterday, that you met this Mideast crisis but if you continue this chart on down 10 years looking forward 10 years to the future, or from 1967 to 1977, or 1987, it gets to be a serious question as to whether we won't be in a position to meet a crisis like the Mideast or a brush fire, and there will be one—we have always had them—so I think this is an important part of your testimony.

We have been able to meet it in the past and I think it is sensible that we protect this industry so that we can meet it 10 or 12 years from now. I think this is the real crux of your statement.

Mr. CALVERT. Thank you, Senator Carlson. Secretary Udall made such a strong case for limiting oil imports in the interest of National security that we left a little of that out of our presentation.

Senator McCarthy. May I ask a question? What are the crude reserves in the United States now?

Mr. CALVERT. I believe I cited the figure of about 31 billion barrels.

Senator MCCARTHY. Thirty-one?

Mr. CALVERT. To be exact, 31.72, Senator McCarthy, in 1960; and 31.45 in 1966.

Senator McCARTHY. What does that include—oil shale and——

Mr. CALVERT. No, sir; that is just discovered crude oil in the ground. That has no reference to the oil shale which is not yet technologically recoverable at competitive prices.

Senator McCARTHY. What do the geologists think? Is this about all there is for the United States?

Mr. CALVERT. No. They do not think that. The optimistic geologists say there is probably more oil to be found than has been found. But we no longer have the obvious places to find them like those who were in the business 30 or 40 or 50 years ago. In those days there were obvious geological structures that indicated oil was there.

Now, as Senator Long said, you find oil by the bit, and the surface geology has all been drilled. Stratographic traps can only be found with a bit. There is a geologic guide to them but you have to be pretty lucky to find them.

Senator McCARTHY. What is the consumption of domestic oil annually now?

Mr. CALVERT. Crude oil is being produced today, sir, at the rate of over 8 million barrels a day times 365 days a year. So that would be about——

Senator McCARTHY. So that at that rate——

Mr. CALVERT. It would be about 3 billion, as compared with proved reserves of over 31 billion.

Senator McCARTHY. So that you would say we have about a 10-year supply of domestic oil.

Mr. CALVERT. We have, sir; yes.

Senator McCARTHY. What if this great war comes 10 years from now?

Mr. CALVERT. Well, that is a very valid point. The oil demand in our country has increased in the last 10 years at the rate of about 300,000 barrels a day per year. Studies by the Interior Department predict that, by 1980, we will be using 18 million barrels a day.

So you have your reserve curve going down, while your demand curve is going up. They have already crossed so where are we going to find the supplies when we will be using 18 million——

Senator McCARTHY. We will be in real trouble.

Mr. CALVERT. We will be in real trouble unless we have adequate domestic supplies or have a defense system where we know we can get oil from the Middle East or Venezuela under any circumstances.

Senator McCARTHY. We may have to keep 15 or 20 tankers afloat at all times.

Mr. CALVERT. Quite a few. I don't know how many they kept floating during this emergency but I know it was a tremendous number.

Senator McCARTHY. Thank you.

Mr. CALVERT. Let's go back to the other problems that we think are knocking on the door of Interior that validate our reason for seeking congressional law.

6. Shipments from Puerto Rico, the Virgin Islands, and Guam.—Under the import program as established in 1959, shipments of petroleum from Puerto Rico to the United States were not directly controlled. They were indirectly controlled by providing that imports into Puerto Rico could not be increased for the purpose of increasing shipments into the United States.

Under this policy the then existing movement of about 35,000 barrels daily of light petroleum products from Puerto Rico to the United States was stabilized through 1965. This policy, however, was changed on December 10, 1965, by Proclamation No. 3693 which provided for the allocation of imports into Puerto Rico of feedstocks for facilities in Puerto Rico which will provide "a substantial and much needed increase in opportunities for employment of its citizens."

Here a new criterion was interjected as a basis for action on oil imports for purposes extraneous to national security. Under this new provision, one facility has been approved, involving the shipment of some 25,000 barrels daily of gasoline to the United States. It is commendable that such additional shipments will be included within the 12.2 percent limitation. Unfortunately, however, this change in the proclamation has led to numerous applications involving additional shipments to the United States from refineries and petrochemical plants in Puerto Rico, the Virgin Islands, and Guam. If granted, these refineries and petrochemical plants would have a preferred position in the domestic market over facilities located in the United States because of the fact that such refineries and plants would have access to imports for 100 percent of their feedstocks whereas imports represent an average of only 13 percent of total feedstocks in the United States. It is obvious, therefore, that this change in the proclamation creates a strong incentive for petrochemical plants and refineries to be built in Puerto Rico for shipment of products to the United States. This constitutes a serious threat to the long-range stability of the oil import program. In addition, the change in the proclamation for the first time permitted shipments from Puerto Rico to the U.S. west coast, now expected to average about 10,000 barrels daily of gasoline.

7. *Imports from Canada.*—Under the mandatory oil import program, estimated overland imports from Canada and Mexico are within the 12.2 percent limitation. These estimates are deducted from the total allowable imports and the balance is then allocated to overseas imports. Mexican imports have been stabilized by agreement between the United States and Mexican Governments. If Canadian imports exceed the estimates, however, the excesses are over and above the levels determined by the national security standards of the program. During recent years, Canadian imports consistently have exceeded the estimates. In 1966 the excess averaged about 50,000 barrels daily. This overage of imports from Canada is a matter of concern and past experience indicates that, unless action is taken, this overage will continue to be substantial in the future. Our association for several years has strongly urged that this defect in the program be corrected by requiring companies which import from Canada to certify, in advance, the quantities to be imported.

8. *Bonded imports of jet fuel.*—In 1959 when the mandatory oil import program was inaugurated there were no bonded imports of jet fuel. Since that time, these imports have steadily increased to an average of almost 60,000 barrels daily. Such imports, however, have never been included within the program and are, therefore, in addi-

tion to import levels established in the interest of national security. The bonding procedure is advantageous to the overseas airlines because it provides an exemption from the payment of import tariffs. The law provides for this exemption from the tariff charges for all flights from the United States to foreign destinations. We find, however, that the Customs Bureau has extended this privilege to cover domestic legs cf foreign flights. For example, it is our understanding that a flight originating in Los Angeles, stopping in New York and then flying to London, has been authorized by the Customs Bureau to use imported bonded fuel on the entire flight. It is our further information that these domestic legs of foreign flights now consume more than 10,000 barrels daily of jet fuel. For several years we have recommended that these bonded imports of jet fuel be included within the total permissible imports, as provided in S. 2332. It seems to us that such action would be consistent with the national security objectives of the import program.

9. *No. 4 fuel oil.*—Proclamation 3794, dated July 17, 1967, changed the definition of "residual fuel oil" which had been in effect since 1959. The effect of the change was to define No. 4 fuel oil, which theretofore was a product included within the 12.2-percent quota, as residual and therefore outside the quota. Thus the 12.2-percent quota is thereby violated by an amount estimated to be in the order of 25,000 barrels daily.

10. *Low-sulfur residual fuel oil.*—Proclamation 3794, dated July 17, 1967, for the stated purpose of abating air pollution, delegated to the Secretary of the Interior authority to permit imports in excess of the established maximum national security levels to persons who manufacture low-sulfur residual fuel oil. This action is for a commendable purpose but, again, the action is unrelated to the national security. Implementing this authority the Secretary on October 4, 1967, issued a regulation which grants bonus imports of crude oil to manufacturers of low-sulfur residual fuel oil in district V (States west of Rockies). For the balance of this year this action obviously authorizes imports over and above the previously determined maximum security level. For 1968 and subsequent years the regulation is silent as to whether or not these bonus imports will be within or on top of the maximum security level. Still pending are proposals covering district I–IV (States east of Rockies). So here again the industry is faced with actions unrelated to the national security which could have a far-reaching impact on the effectiveness of the program. The result is widespread apprehension as to what lies ahead.

The Chairman. Let's just analyze that for a moment. Here we have a program that says that for purposes of national security, we must maintain a domestic petroleum industry adequate to meet this Nation's foreseeable requirements in the event of an all-out war, nuclear or nonnuclear. So we then recognize that an existing level of the industry ought to be maintained.

But now, someone comes along in the course of it and says, wait a minute. Here is this very important matter of air pollution. Now, we think we could make some headway on air pollution if we gave some green stamps for oil imports, which are worth about a dollar a barrel, let us say. What do you estimate a stamp for a barrel of oil is worth?

Mr. Calvert. I think the trade values them around a dollar and a quarter, sir.

The CHAIRMAN. Let's say a dollar and a quarter a barrel. We can take some green stamps for oil imports and use that to pay someone out here to clean up the atmosphere by changing his refinery methods. So that is done.

Now, as desirable as it may be, what has that got to do with national security? It would be about the same thing as if you did it to compensate the television stations for refusing to accept advertising for cigarettes, and so you say, it might improve public health. It really doesn't have anything to do with national security, does it?

Mr. CALVERT. No, sir.

The CHAIRMAN. Then someone else comes along, and says, wait a minute. Here is a way we can use this program for highway beautification. That is very, very close to the heart of the First Lady. And the Secretary of the Interior sits down there, and the first thing you know, he is in the process of being against highway beautification and being against Lady Bird, because he turns down the highway beautification people.

What you are saying is that all these pressures build up—some fellow is saying, wait a minute, I can put a plant in at Taft, La., if you will give us some more of these stamps. Someone else says, I can put a plant at Chicago, Ill., if you can give us more of these stamps—and, if you don't have something firmly in the law, the Secretary of the Interior may not be able to resist the pressure of members pressing him. Every time you turn around, some major industry pushing on him, and people bringing pressure to bear upon the President, the Vice President, the Secretary of Commerce, the Secretary of the Treasury, and Senators and Congressmen; if you don't have something firmly here, that man can't stand that pressure forever, can he?

Mr. CALVERT. We don't think he can. He has so far.

The CHAIRMAN. Plus the fact that he won't be there forever, will he?

Mr. CALVERT. No, sir; he won't.

The CHAIRMAN. History shows that these good men come and go. Over a period of time the pressure is going to be too great for any administrator to stand up without being overruled by higher authority.

Mr. CALVERT. A program to clean the air is a laudable objective, but it doesn't fit the import program, in our program.

11. *Asphalt imports.*—Proclamation 3779, dated April 10, 1967, delegates to the Secretary of the Interior authority to permit asphalt to be imported in excess of the maximum import levels established in the interests of national security. On August 28, 1967, the Secretary of the Interior issued proposals to implement this proclamation. The purpose of this change in the proclamation and the pending proposals of the Secretary are extraneous to the national security objectives as to oil supplies. In addition, this change in the import program is unnecessary because there is no shortage of asphalt. Since this matter is still pending, it is another cause for apprehension as to the long-range stability of the mandatory oil import program.

12. *Supply of No. 2 fuel oil.*—No 2 fuel oil is used primarily for home-heating purposes. Approximately 20 percent of total U.S. crude oil production is converted into No. 2 oil. It is the industry's second (gasoline is first) most important oil product. The basic purpose of the mandatory oil import program is to assure that the domestic industry is capable of supplying the demand for the principal petroleum prod-

ucts derived from domestic crude oil. The availability of crude oil, the magnitude of U.S. refinery capacity, and the flexibility of refiners to adjust yields to maximize the output of No. 2 fuel oil leave no doubt that the supplies of this fuel will continue to be adequate.

It is regrettable that on September 27, 1967, the Oil Import Appeals Board granted allocations to three petitions to import No. 2 fuel oil in the amount of some 3,000 barrels daily. The basic premise for this decision is the Board's finding that:

> The Board finds that the three subject petitioners for No. 2 oil allocations are suffering exceptional hardship attributable to oil import controls.

This finding is in conflict with the facts presented by the Director of the Interior Department's Office of Oil and Gas in a speech on October 3, 1967, as follows:

> Since the Middle East crisis erupted in early June, U.S. domestic producers have supplies over 37 million barrels of crude oil over and above their normal expected production for the period. Twenty-two million barrels of this went to Europe, and another 21 million went to our own east coast to take the place of interrupted imports. In addition, some 3½ million barrels went to eastern Canada.
>
> The extra movement of crude oil from the gulf coast to the east coast was undertaken to make good the deficiency caused by the stoppage of Middle East imports. Because this was a shift from foreign trade to domestic trade, it meant a substitution of U.S.-flag tankers for foreign-flag ships. And because the requirement was for crude capacity, it also meant that a number of these tankers had to be taken out of clean (finished product) service to carry the crude. This in turn resulted in capacity loading of the two product pipelines between the gulf and east coast, so that we ended up with a severe strain on both ocean and overland carrying capacity for both crude and products. The severity of this squeeze is evident in current spot tanker rates for gulf-New York shipments.
>
> If I were asked to summarize the outlook for distillate fuel oil this winter, I would describe it as good, but nevertheless, one to be watched closely. In its reaction to the vast dislocations of last summer, the petroleum industry has once again proved its flexibility and responsiveness. I see no reason why it should do less well in the present case.

In these cases, the Appeals Board erroneously blamed the import program for isolated hardship claims which, if justified, could have been attributable only to transportation problems created by the Middle East crisis.

There is no need or justification for modifying the import program as to the supply of No. 2 fuel oil.

Let me now summarize, please, Mr. Chairman.

Under the mandatory oil import program, imports into districts I to IV—excluding residual fuel oil—were relatively stable in relation to domestic production for the year 1966, a laudable achievement. However, the accumulation of pressures for greatly increased imports resulting from actions already taken and from applications and proposals for special treatment of individual companies and geographical areas, now very seriously threaten the long-range stability of the mandatory oil import program.

The pressures threatening the stability of the program fall into two main categories: (1) increasing imports outside the maximum levels established in the interest of national security, 12.2; and (2) the potential large increases in imports now included within those maximum levels.

The following tabulation shows the growth in imports outside the established national security limitations:

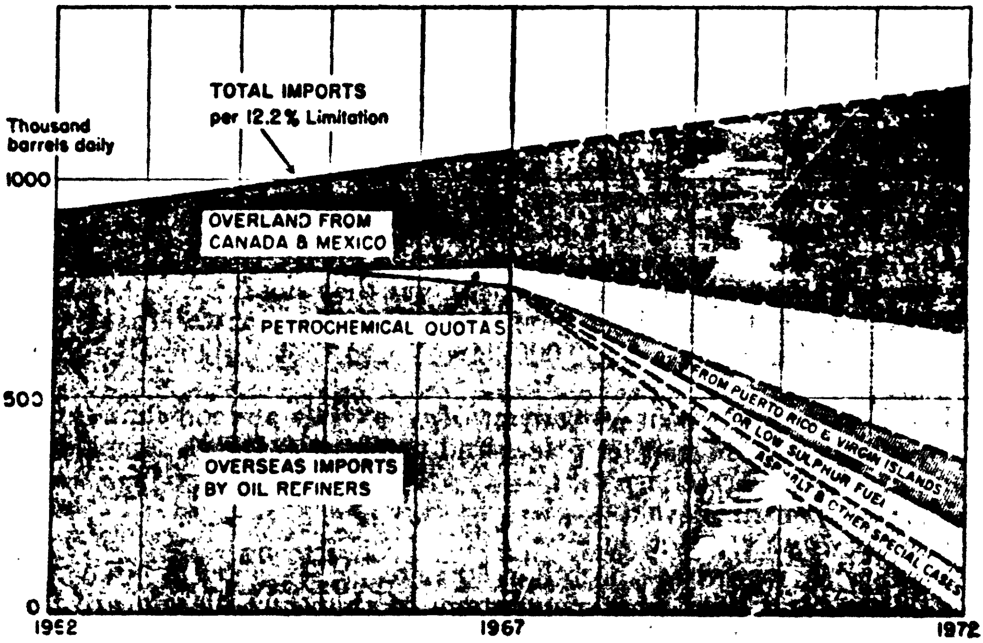
	Barrels daily		
	1959	1967	Increase
Shipments from Puerto Rico	35,000	45,000	10,000
No. 4 fuel oil		25,000	25,000
Canadian overage		50,000	50,000
Bonded jet fuel		60,000	60,000
Bonded diesel	15,000	10,000	−5,000
Total	50,000	190,000	140,000

Unless corrective action is taken, a continued growth can be expected in these shipments, inconsistent with the security objective of assuring adequate domestic oil supplies.

Far more disturbing, there are tremendous pressures to increase substantially certain categories of imports now included within controlled imports, particularly in districts I to IV. The magnitude and seriousness of these threats are illustrated in the next chart.

OIL IMPORTS IN DISTRICT I-IV

(Excluding Residual Fuel Oil)



This chart shows the history of imports into district I to IV which are controlled by the 12.2-percent quota, and a projection covering the next 5 years.

The left side of the chart shows the trend of these imports during the past 5 years from 1962 through 1967. Based on the 12.2 ratio to production, total imports increased from 925,000 barrels daily in 1962 to an overall limitation of 1,060,000 barrells daily in 1967. Imports from Canada accounted for substantially all of the total increase in allowable imports. Petrochemical import allocations amounted to 30,000 barrels daily in 1966, increasing to 40,000 barrels daily in 1967.

As a result of increased imports from Canada and increasing petrochemical allocations, total allocations for offshore imports by oil refiners were actually somewhat less in 1967 than in 1962.

The threats to the future stability of the program are only partially, and to a very limited degree, revealed by the trends through 1967. Looking 5 years ahead, as an illustration, total allowable imports under the 12.2-percent limitation can be expected to continue to increase from 1,060,000 barrels daily in 1967 to approximately 1,235,000 barrels daily in 1972, assuming a continued average increase of about 300,000 barrels daily each year in domestic production. On this basis, additional allowable imports of only 175,000 barrels daily would be available at the end of the coming 5-year period. The accumulation of pressures and proposals that now threaten to increase imports exceeds many times this increase in imports that would be allowed under the 12.2-percent limitation.

Greatly increased volumes of Canadian oil are seeking additional markets in the United States. A projection of the trend of recent years points to an increase in the order of 250,000 to 300,000 barrels daily in Canadian imports over the next 5 years. Accommodating such an increase within the 12.2-percent limitation would result in a steady decline in all other imports, as shown on the chart.

The CHAIRMAN. This Canadian thing has been thrown in our teeth several times here by previous witnesses testifying in general. Now, if we had no oil imports program at all, none, would Canada be better off or would Canada be worse off?

Mr. CALVERT. They probably would be better off because I believe it would come in faster if there were no program.

The CHAIRMAN. Let's just look at it for a moment now.

As I understand it, two-thirds of what Canada is consuming they are importing at world market prices, are they not?

Mr. CALVERT. I think it is about half, Mr. Chairman. I think their daily demand is about a 1,200,000 barrels and they import about half of that.

The CHAIRMAN. About 50 percent of what they are consuming they are buying at world market prices and using it on the eastern side of Canada; that is correct, isn't it?

Mr. CALVERT. I believe it is.

The CHAIRMAN. All right.

Now, with regard to the other 50 percent, they are producing it themselves, and then what percentage of their production are they shipping into the United States?

Mr. CALVERT. About 450,000 barrels daily. I would say almost the equivalent of what they are importing they export to us of their own.

The CHAIRMAN. So now for their own uses, they are importing about 50 percent of their requirements at world market prices.

What would you say that would be laid down at Montreal?

Mr. CALVERT. I would have to guess.

The CHAIRMAN. What would be an educated guess? You are in that business.

Mr. CALVERT. Well, it would be well below what they are selling it to us for.

The CHAIRMAN. Would it be $1.50 a barrel?

Mr. CALVERT. About $1.50 or $1.25.

The CHAIRMAN. So 50 percent of what they are consuming they are buying on the world market for a dollar and a quarter a barrel.

Now, how much are they shipping to us?

Mr. CALVERT. 450,000 barrels.

The CHAIRMAN. About an equal amount.

Mr. CALVERT. Yes, sir.

The CHAIRMAN. So they are selling us an equal amount at what price?

Mr. CALVERT. At our market price, which is an average of about $2.90, $2.92.

The CHAIRMAN. Roughly $3 a barrel.

Mr. CALVERT. Yes, sir.

The CHAIRMAN. All right.

Now, so they are shipping us an amount which just about equals their imports of oil, but what they are buying, they are buying for a dollar and a quarter and what they are shipping to us costs us almost $3.

Now, do you know of any nation that is getting a better deal anywhere on earth in trade?

Mr. CALVERT. It is a good trade but their oil is not costing us more, Senator, than our own oil.

The CHAIRMAN. I know it, but I mean as far as Canada is concerned.

Let's just assume for a moment that we didn't have this program. No program whatever. Give a few years for these Saudi Arabians, Venezuelans, to put the Americans out of business; and when they have done that, if you can rely upon the so-called economics of free trade, competition between Nigeria, Saudi Arabia, and Venezuela would bring oil down to about a dollar and a quarter a barrel, would it not? Theoretically if you can rely upon the pure economics, and that is what these people say we ought to base our trade on, the price of oil domestically would go to about a dollar and a quarter and Canada would lose that $1.60 profit they are making on every barrel they are shipping us, would they not?

Mr. CALVERT. If we didn't have a program they might. You know also the sheiks and Arabs in the foreign countries are constantly raising the price of their oil.

The CHAIRMAN. Right. So that gets to point No. 2.

We have no way of bringing Saudi Arabia, Kuwait, Iran, Iraq, Nigeria, Venezuela under our antitrust laws, do we?

Mr. CALVERT. We sure don't.

The CHAIRMAN. There is nothing whatever to keep those six countries from getting together in an international cartel and simply say-

Additionally, the amendment of the Presidential proclamation granting the Secretary of the Interior authority to permit additional imports of asphalt into the U.S. east coast could result in the displacement of some 100,000 barrels daily of asphalt now being produced on the east coast.

There you have a projected trend line of the pressures that right now the lid is on and Secretary Udall is containing. But there are many, many threats.

The CHAIRMAN. When all that happens—if we do permit Canada and Mexico to continue as they are doing right now, and do for the petrochemical companies what they are asking, which is a reasonable request simply on its own merits, to why shouldn't we do for Puerto Rico and the Virgin Islands what they would like to have done? Has that been agreed to yet?

Mr. CALVERT. No, sir. Those are all under consideration.

The CHAIRMAN. And then proceed with this suggestion of giving somebody a special quota for low sulphur fuel, as an air-abatement program, and then give asphalt and other special situations what they are asking, how much does that leave for Venezuela and Saudia Arabia?

Mr. CALVERT. It just leaves zero.

The CHAIRMAN. None.

Mr. CALVERT. None in 1972.

The CHAIRMAN. Unless you put us out of business.

Mr. CALVERT. Well, it takes some 700,000 barrels of quota tickets away from oil refiners and accommodates the other seekers. Obviously this isn't all going to happen. It is going to have to be balanced and just as it has been balanced to date, but these are the terrific pressures which we think are so irresistible.

To sum up, sir, the outlook presented in this chart, it obviously would become impractical to accommodate, within the 12.2-percent limitation, the cumulative effect of the greatly increased imports now receiving and seeking special treatment. The establishment of the 12.2-percent limitation by law would negate the otherwise irresistible pressures to treat these imports outside this basic standard. It is essential, therefore, to establish firm policy guidelines that will limit special treatment and assure the long-range stability of the mandatory oil import program.

In conclusion, we urge the enactment of 2332 which would establish by statutory law a program that has been in effect as a national security policy for more than 8 years. This action would make no basic change in U.S. international trade in oil which involves petroleum imports exceeding $2 billion annually, the largest trade deficit item in our balance of payments.

Under the provisions of the bill, oil imports would continue to increase in keeping with the increase in domestic production, but the limitations on the growth in imports will serve the objective of assuring the domestic supplies of petroleum so essential to national security.

Thank you, Mr. Chairman. Thank you, Senator Carlson and Senator Harris.

The CHAIRMAN. Senator Carlson.

Senator CARLSON. No questions.

The CHAIRMAN. Senator Harris?

Senator HARRIS. I haven't any questions except to compliment Mr. Calvert on his very well presented position.

Mr. CALVERT. Mr. Chairman, I am sorry I took so long. Mr. Clint Engstrand is scheduled first. He has a statement.

Mr. ENGSTRAND. My name is Clinton Engstrand, Mr. Chairman, and I am an independent oil operator from Wichita, Kans., and am vice president and director of the Kansas Independent Oil & Gas Association.

The official recommendations of the Kansas Independent Oil & Gas Association, were incorporated in Mr. Calvert's statement. I am here today representing Gov. Robert B. Docking who has made a statement for the State of Kansas that covers nearly—not every point but it covers a lot of the points that Mr. Calvert presented, so in the interests of time I am just going to submit this to the committee.

Senator CARLSON. I want to say this: I am certainly pleased that Mr. Engstrand is appearing here and I am pleased to have the statement he is submitting from the Governor of Kansas, Gov. Robert Docking.

I notice our crude oil reserves in the State of Kansas have declined from 862.4 million barrels in 1962 down to 751.6 in 1965. This is in part of the statement. I think that is a figure that we have got to give some thought to if we are to keep our industry healthy.

Mr. ENGSTRAND. That is right, Senator, and also our productive capacity during the Suez crisis when there was an increased demand for oil and we were able to make our allotment.

(The complete statement of Governor Docking follows:)

STATEMENT OF HON. ROBERT B. DOCKING, GOVERNOR, STATE OF KANSAS

IN DEFENSE OF A STRENGTHENED MANDATORY OIL IMPORT PROGRAM

My name is Clinton Engstrand. I am an independent oil operator from Wichita, Kansas and am a Vice-President and Director of the Kansas Independent Oil & Gas Association. I make the following statement at the special instance and request of Governor Robert B. Docking, who has approved this statement. Governor Docking is presently attending the Governor's Conference in Puerto Rico.

I will not waste this distinguished committee's time by going into the statutory basis for the oil import program. It is national security and that alone. The intent of Congress is clear. Since the inception of the program in 1959, the Department of the Interior has been urged to administer the program in strict accordance with the terms of the presidential proclamation which is itself based on the authority granted to the president by the Congress. In recent years, however, there has been mounting evidence that the program is being administered very much as the Department of the Interior sees fit, by whim if you please, and not in strict conformity with the wishes of the Congress. Indeed these signs are now so apparent and numerous that many observers feel the program is being totally dismantled.

The certified national security requirements of the program are well defined. Recent events in the Middle East add urgency to these requirements. Yet the program has not been consistently administered with these requirements in mind. It seems to me that Congress, having established the basis for the program, has a compelling obligation to see that the program is administered in strict compliance with these requirements. In its administration of the program the Department of the Interior has permitted or threatened to permit exceptions for certain areas of the Caribbean, for Canada, for Mexico, for foreign trade zones, for asphalt and asphaltic based crude, for sulphur free crude, for No. 2 fuel oil and the appeals board for a myriad of alleged hardship cases for iming that they are going to organize a seller's cartel and divide the markets, is there?

Mr. CALVERT. And they are working toward that. In the organization called OPEC, Organization of Petroleum Exporting Countries, they are trying to get their signals together.

The CHAIRMAN. Well, I have been in the United Nations and all these less developed countries have something that they can vote through any time they want to. They have voted some of it through already. They have other things they plan to vote through the United Nations, simply saying that developed nations like the United States will have to pay them higher prices for raw materials we buy from less developed nations.

Are you familiar with the fact that that type of thing exists and they have the votes?

What we are telling them at the United Nations is if you do it we are not going to buy it from you. You can vote it through but if you are going to enforce it you will have to get a Security Council resolution and we are not going to vote for it. Nor would I suppose will the Soviet Union or the other permanent members, so they can't make it effective. But as a practical matter they have it within their power if they want to organize and raise the price that we would pay. So even though theoretically you might get the oil cheaper, if you did, Canada would be in very bad shape indeed, and if you didn't the alternative would be that those people would simply get together and raise the price and put it at a point that would drive most of the American producers out of business, and at the same time get them the maximum price for oil. Isn't that about it?

Mr. CALVERT. Sure.

The CHAIRMAN. In other words, in times of national emergencies they haven't shown any great sympathy for our problems, have they?

Mr. CALVERT. The back of their hand.

The CHAIRMAN. Venezuela has been more cooperative but as a matter of fact, you can never be sure but what at some point down the road those supplies would not be cut off.

Mr. CALVERT. Right.

This chart with overlays we think you will find very informative. We have shown you the division of the 12.2 quota that has been authorized and which we would like to firm up by congressional action.

The CHAIRMAN. I would like to ask you to get a copy of that so we can put it in the hearings, too.

Mr. CALVERT. There is a copy here.

The CHAIRMAN. Good.

Mr. CALVERT. Now let's consider the next item.

The CHAIRMAN. I just want to ask one more point about Canada to get the record straight on this.

If we didn't have this program, could Canada be selling us oil above world market price?

Mr. CALVERT. I think they would, because only the border divides us and they have wells within 10 miles of the border, out of the same formations that costs the same to drill, and I think their commodity would sell in the market for the same as ours unless there were a tariff barrier.

The CHAIRMAN. The point is if we didn't have the program, our price would be much less than it is.

Mr. CALVERT. That is true, sir, if we didn't have the program.

The CHAIRMAN. Minus this program, Canada could not sell us Canadian oil above the world markets, could they? They would have to sell at world market prices, and we would, too. Minus this program they would have to sell at world market prices and minus this program Canada would be very badly hurt. You would be, too.

Mr. CALVERT. We would be hurt.

The CHAIRMAN. And hurt very badly.

Mr. CALVERT. We certainly would.

The CHAIRMAN. So as far as the Canadians are concerned, when somebody talks about Canada retaliating against us, they are being treated better than any nation on earth under this program.

Mr. CALVERT. I have never heard any threats of retaliation from them. We are on very friendly relations with them.

The CHAIRMAN. As a matter of fact, what percentage of those Canadian producers are American and American capital?

Mr. CALVERT. We always guess half.

The CHAIRMAN. So half of them are the people that you do business with every day in Texas, Oklahoma, and elsewhere.

Mr. CALVERT. Yes, and they are the country that is our biggest customer. Therefore, if we have to choose people to favor, it would be Canada.

The CHAIRMAN. They are our best customer and best partner, wouldn't you say?

Mr. CALVERT. Yes.

The next section on the chart is petrochemical quotas. Various proposals are pending to greatly enlarge imports of petrochemical feedstocks, particularly foreign naptha. In addition to the applications for imports into foreign trade zones, a proposed plan leading to unlimited imports of feedstocks for the production of chemicals is currently under consideration. Such proposals, if approved and included within the overall import limitation, threaten to take a greatly increased share of allowable imports, as shown on the chart.

Note that the permissible imports would be gradually squeezed. All this may not happen but it could. It illustrates pressures that have to be contained below that black line or the bubble would burst, and all these things would break through.

In addition, a number of U.S. oil companies and chemical companies have applied for allocations to increase shipments of gasoline, other light products and petrochemicals from Puerto Rico, the Virgin Islands, and Guam. These pending applications, if approved, would increase these shipments to about 150,000 barrels daily. That is the green section in the continuation in 1962 to 1967.

Let's look at the fourth section.

Various additional proposals threaten to accumulate to as much or more than the remainder of allowable imports. These include additional allocations of crude oil for the production of low-sulphur fuel, in the interest of abating air pollution. If the recent change in the regulations granting allocations in district V is extended to districts I to IV, we could get up to 100,000 barrels daily of bonus allocations of imports.

porters. The administration has said that it needs flexibility in the administration of the program. The flexibility which has been employed has resulted in a clear breach of discretion so that the program has lost much of its original purpose in terms of effectiveness.

During the course of many hearings concerning the program, a principal segment of the petroleum industry has warned the Department of the Interior that the reserve producing capacity of this nation was being threatened by an alarming decline in on-shore exploratory drilling. Major company blandishments and National Petroleum Council reserve capacity figures were cited by the Department as a basis for it to ignore these well-reasoned warnings. Yet in the aftermath of the Middle East crisis last summer, these warnings were proved to be valid. My own State of Kansas was essentially found to have no reserve capacity; neither did Oklahoma, and even Texas and Louisiana seriously failed to measure up to the producing abilities with which they had been credited.

Crude oil reserves in my state have declined as follows:

1962	862.4
1963	841.3
1964	796.5
1965	751.6

Source: Kansas State Geological Survey.

Preliminary figures for 1966, not yet published, predict a similar decline for last year.

The final answer lies in the average daily rig count which in the State of Kansas is down from 169 in 1956 to little more than 40[1] this year. This depression in the drilling industry has resulted in a major exodus of the great reservoir of highly skilled workers into other fields of endeavor.

Please note that there remain many attractive geological areas of the state that remain essentially unexplored. There is an old expression in the oil patch to the effect that you can't find oil if you don't drill wells. Figures from most other producing areas will reflect a similar decline. Additionaly, Kansas in 1967 will produce less than 100,000,000 barrels of crude oil for the first time since 1946, constituting a serious threat to our tax base.

A major defect in most of the reserve figures which are cited is that they credit reserves which are discovered but logistically are not available for use. Outstanding examples of this are found in the Gulf off-shore, in Alaska and in Canada. Parenthetically, no one in government, especially the Department of Defense, has told the American public nor the petroleum industry, what reserve producing capacity is necessary to insure the defense of the nation in time of emergency. Should not this be done?

Twice within the past decade Suez has blown up in the face of consuming nations. In 1956 the United States had a producing ability sufficient to meet the needs of the free world. This year that capacity was strained to the near breaking point and enhanced production came from only a handful of big fields. How many of these fields were gutted by that effort and where will the oil come from in the next emergency? Further, what commitments does the United States have to it's NATO allies to furnish petroleum supplies when their normal sources are stopped or interdicted? Do we have other unpublicized obligations of this character?

Other exotic fuels and energy sources have been widely publicized in recent years. This is so much window dressing. An energy symposium conducted by the Department of the Interior in March of 1967 clearly established the fact that such fuels will at best be supplementary for many years to come. Today oil and gas provide more than 70% of the daily energy requirements of this country.

The domestic petroleum industry can never achieve the required degree of health and vigor while the oil import program is being manipulated at the whim of some administrator. This lack of stability has created a lack of confidence among independent oil operators. These are the people who have historically found more than 75% of all domestic on-shore reserves. Yet while the large companies, especially those in the Chase-Manhattan group prosper, independent operators have gone down the drain. Only when adequate incentives in the form of better prices and stable markets are established will this important segment

[1] Source: Hughes Tool Co.

of the petroleum industry get back to work at the important business of finding oil here in the United States. Both price and markets have been depressed for many years and the administration of the import program has been a principal factor in this depression. In attention to the foregoing, I make the following comments and recommendations to this committee and to the Congress:

1. I view these hearings as a significant prelude to a much needed impartial investigation by the Congress into the oil import program and its administration. Interior for some unexplained reason has opposed such an investigation. It should not be apprehensive if the program has been and is being properly administered.

2. I view the power of the Department to vary the level of imports as a major shortcoming. The 12.2% ratio of imports to *actual* production should be written into law.

3. Negotiations and ad hoc trade agreements affecting the domestic petroleum industry should be publicized so that the nature and extent of future demands to be made upon the industry may be known.

4. The value of petroleum imports is escalating volumetrically. The impact of this trend should be closely scrutinized by this committee as regards its effect upon the balance of payments deficit.

5. I recommend that the committee take such action as is necessary to create stability in the industry, thereby insuring employment in vast areas of the United States.

6. Only a greatly accelerated exploratory drilling effort in this country will again provide this country with an exportable surplus of crude oil in times of international crisis. Incentives to generate this effort are closely keyed to the terms of the import program and its administration.

7. Imports or preferences for imports from less developed countries should be closely examined in light of their impact upon the domestic producing industry. Towns and areas of my own State of Kansas are seriously depressed because of the decline of the petroleum industry in the Mid-Continent area.

8. Establishment of free trade areas with U.S. participation should be scrutinized for the same reason stated in No. 6.

In conclusion, may I thank this committee for the opportunity to appear and I congratulate you upon your wisdom in conducting hearings upon this important question.

Mr. CALVERT. Mr. Chairman, Mr. Stark Fox, for the Independent Oil & Gas Producers of California.

Mr. FOX. Thank you, Mr. Chairman. My name is Stark Fox and Mr. Calvert has identified me. I am going to have to correct what I am sure was a slip of the tongue on Mr. Calvert's part. He said that district V was California. District V is actually the west coast including Alaska and Hawaii.

I will submit this statement. I will skip through it. I made some general comments, one of which I would like to read now.

I think that the basic purpose of your bill, Mr. Chairman, yours and your colleagues, is to preserve the status quo ante, and the ante are the exceptions that began to appear in the program the last several months. It does not add anything—it does not complicate, if that is a good word, any foreign trade problems that we may now have. It is a program that has been in existence for almost 10 years. Your bill does nothing more than preserve its integrity, to my way of thinking.

District V is separately treated in the bill. We believe that that is correct.

I will now make a few remarks about the district.

We think that in the main the program has proved effective. On the whole, however, the independent segment of the industry out there has suffered to the extent that since the program went into effect, since the year 1958, the independent producers share of the production has dropped from 45 percent of the total to 38½ percent. During that same period the price of California crude oil dropped 67 cents per barrel which is the greatest drop suffered by any producing region in the United States.

This price drop occurred during the period of the mandatory import control, a program which your bill will continue without substantial change insofar as the district V is concerned, at least. The drop has caused near disaster for the independent producer but it gives the lie to those who say that import controls result in higher prices.

Well, if these things have happened, if the independent producers have suffered, why do we support your bill?

Simply because we are convinced that the exceptions and exemptions breed more exceptions and exemptions.

We have seen a statement of a group which desires to build a refinery in Guam. The proposed refinery is predicated on the securing of an import quota. Without it the refinery won't be built. We have no objection to anyone building a refinery any place he wants to build it, including Guam. We applaud his enterprise and wish him well just so long as his project is based on his estimate of economic success in the face of existing competitive conditions. When he says, however, that he is going into business because he expects to receive an import quota, we draw the line.

To our knowledge, the group has not yet been assured of the quota it seeks, but another exception has been made in the district V program. Certication of low-sulfur fuel oil. The stated purpose of the exception is to aid in the fight against smog in Los Angeles County. The objective is laudable even though the effectiveness of the exception as an alleviator of air pollution is subject to controversy and debate.

We do not here enter that debate. We point out, however, that the exception was granted not for security reasons but for a renson not even remotely related thereto.

The oil import program was undertaken, and until recently was administered, with but one objective—national security. That objective has been blurred by recent administrative decisions.

Senate bill 2332 would return the program to its basic purpose. That is the main reason for our support of the bill.

Thank you, Mr. Chairman.

(The complete statement of Mr. Fox follows:)

Statement Submitted for the Independent Oil and Gas Producers of California, by Mr. Stark Fox, Executive Vice President

Independent Oil and Gas Producers of California is successor to Oil Producers Agency of California and San Joaquin Valley Oil Producers Association, and is the only statewide organization of independent oil and gas producers in California.

This statement is presented in support of S. 2332, and will be principally concerned with the oil import situation as we see it in District V. We take this opportunity, however, to make a few general comments.

First is that enactment of S. 2332 most emphatically does not put the oil industry any more deeply into the hands of the Federal government, insofar as oil imports are concerned, than it is at this very moment. Not one barrel of offshore oil has been imported into this country since March, 1959, except under license by that government, and total imports have been limited to levels set by that government. S. 2332 would do no more, except that it would guard against

Administrative exemptions granted for reasons totally unrelated to national security considerations, which in time and if continued and added to, will destroy the program.

Our second comment refers to remarks attributed to the Secretary of the Interior to the effect that he intends to keep all exceptions within a 12.2% ratio to production, yet he is reported to object to the bill. If that is his intention, his objection to the bill is groundless, because that is its main purpose.

The Secretary is also reported to have said that the present program has worked well and that he sees no reason to change it. He is correct as to past history. He must be aware, however, of the almost unanimous testimony of industry witnesses at the hearings he held here in Washington last May, which underlined the industry's fear of the future—a fear engendered by the recent exemptions and exceptions. That fear is a compelling reason for the widespread support of S. 2332.

Basically what S. 2332 does is preserve the *status quo ante; ante* the exceptions that began to appear a year or so ago. In doing so, the bill carries out the intent of the Congress when it included the so-called Defense Amendment in the Trade Agreements Act.

The Secretary has also said that to raise the oil import control issue in the Congress at this time will provide another "fresh argument to those who want to reduce their depletion allowance now"—if he is correctly quoted.

We fail to see the connection. However, if some relationship can be asserted, we think it to be the Secretary's obligation and duty to refute the argument, since it is his Department that has expressed concern about the adequacy of future oil supplies in this country.

So much for our general comments. Now as to District V specifically.

We believe that in District V the oil import program has, in the main accomplished its objectives. California reserves increased in each of the last two years; production has recovered to a current 980,000 B/D from its post-war low of 809,000 in 1962 and is expected to continue its uptrend; there is a ready market for all oil produced.

This is the total picture. Within that picture, however, there is a disturbing element. The situation in which the independent producer finds himself. One statitistic will suffice to illustrate the point. Since 1958, the independents' share of California production has steadily decline—from 45% of the state's total in that year to a current 38.5%.

We think it no coincidence that during the same period, the average price of California crude dropped from $3.05 per barrel to $2.38—67¢.

This price drop occurred during the period of mandatory import control over oil imports into District V; a control which S. 2332 will continue without substantial change. The drop has caused near disaster for the independent producer, but it gives the lie to those who say that import controls result in higher prices.

If, in fact, this deterioration in the health of California independent producers has occurred during the effective period of the oil import program and if, in fact, S. 2332 will only preserve—not materially change—that program in District V, why do we support it?

Simply because we are convinced that exceptions and exemptions breed more exceptions and exemptions. We have seen the statement of a group which desires to build a refinery in Guam. The statement was filed at the Interior Department's hearings of May 22–24, last, and put the Department on notice that the group wanted a quota to import 12,500 B/D of gasoline into District V. The proposed refinery is predicated on the securing of an import quota; without it, the refinery won't be built.

As we understand the purpose of the import program, it is to enhance the national security by maintaining an active, healthy, and vigorous domestic oil industry—not to provide an opportunity for someone to go into business. Make no mistake about our meaning: We have no objection to anyone's building a refinery anywhere in the world, including California, anywhere else in District V, or Guam, for that matter. We applaud his enterprise and wish him well, just so long as his project is based upon his estimate of its chances of economic success in the face of existing competitive conditions. When he says, however, that he is going into business because he expects to receive an import quota, and says that without it he would not proceed, we draw the line.

To our knowledge, the group has not yet been assured of the quota it seeks, but another exception has been made in the District V program: Certification of low sulfur crude oil imports for the manufacture of low sulfur fuel oil. The stated purpose of the exception is to aid in the fight against smog in Los Angeles County.

The objective is laudable, even though the effectiveness of the exception as an alleviator of air pollution is a subject of controversy and debate.

We do not here enter that debate. We point out, however, that the exception was granted not for security reasons but for a reason not even remotely related thereto.

The oil import program was undertaken, and until recently has been administered, with but one objective: National security. That objective has been blurred by recent Administrative decisions.

S. 2332 would return the program to its basic purpose. That is the main reason for our support of the bill.

Mr. CALVERT. Mr. Chairman, Mr. Ben Cubbage is next, who will identify himself.

Mr. CUBBAGE. My name is Benjamin Cubbage from Henderson, Ky., and I appear here on behalf of Mr. Joe McGuire, President of the Independent Oil Producers and Land Owners Association, Tri-State.

This is a voluntary association of oilmen coming from the States of Indiana, Illinois, and Kentucky.

I wish in the interests of time to merely file the statement which we have prepared.

Mr. Chairman, suffice it to say for our purposes we wholeheartedly and unanimously support Senate bill 2332 and wish to go on record on behalf of this legislation. We encourage its enactment. We appreciate the interest which is shown by the committee in the oil business.

I would like to file this statement as though it had been presented orally if that is agreeable with you, sir.

The CHAIRMAN. We will print it that way.

The Independent Oil Producers and Land Owners Association, Tri-State, Inc., representing the independent oil producers of the Tri-State Basin, including Illinois, Indiana, and Kentucky, wishes to go on record as wholeheartedly supporting Senate bill 2332, whose enactment will eliminate special privilege, check bureaucratic intervention, and permit free operation of the laws of supply and demand in respect to domestic crude oil. This will in turn:

(1) Check the squeeze between rising costs and declining prices which is eliminating the independent domestic oil producer;

(2) Retain in the oil industry the engineers, geologists and skilled laborers without whom oil cannot be found; and

(3) Encourage the investment of capital to explore for reserves to replace those being inexorably consumed, and thus benefit the oil industry, the national economy and security, and those unborn who will be dependent on domestic oil reserves whose discovery hinges on the enactment of this bill.

STATEMENT OF JOE McGUIRE, PRESIDENT, INDEPENDENT OIL PRODUCERS AND LAND OWNERS ASSOCIATION, TRI-STATE, INC. (INDIANA, ILLINOIS, KENTUCKY)

Mr. McGUIRE. Mr. Chairman, the Independent Oil Producers & Land Owners Association, Tri-State, Inc., is an association whose membership consists of producers, landowners, and other independent businessmen directly serving the oil industry in the States of Illinois, Indiana, and Kentucky. This area is also referred to as the Tri-State Basin, and is one of the oldest oil producing areas in the United States. The objective and purpose of IOPLOA is to provide a collective voice for the independent oilman, who continues to contribute substantially to the industry in our area.

Our association wishes to go on record as wholeheartedly supporting S. 2332 and we hereby commend Senator Russell B. Long and the cosponsors of this bill for assuming the responsibility and leadership to provide legislation so vital to the security of our Nation and so necessary to the health of the domestic oil industry.

It is the unanimous position of our association that the recent Mideast crisis has clearly demonstrated the danger to our national security of overreliance upon foreign sources for crude oil. The fact that such a situation did occur twice within an 11-year period is unimpeachable evidence of the necessity to maintain a safe margin of domestic reserves. The oil import program, as implemented by the Trade Expansion Act of 1962, has failed to accomplish its stated purpose. During the past 10 years, the period estimated to exhaust our proven domestic reserves has declined from 13.5 years to 11.5 years. We are now consuming approximately the same amount of oil annually as is discovered. With domestic consumption rising and domestic exploration declining, this reserve figure can only decline further unless and until adequate programs are adopted which will provide the essential stimulus and incentive to induce the domestic oilman to renew his search for oil. We believe that the imposition, through legislation, of a 12.2-percent quota as a ceiling on foreign imports is one such program, particularly if it is provided that the quota will ultimately be "all inclusive," as opposed to the present "all-exclusive" policy of the Department of Interior.

It is recognized that the interest and security of the Nation as a whole is the overriding reason to stabilize oil imports. This is explicitly stated by Senator Long and other proponents of this bill in the Congressional Record, pages S12079 through S12090, August 23, 1967. To elaborate upon those remarks would, in our judgment, be presumptuous and serve no purpose, other than to recognize their importance and to offer our complete agreement. There are other factors which affect the overall problem to which this hearing is addressed and it is to these that we confine our remarks.

1. The oil industry in the Tri-State area has witnessed a steady economic decline in spite of the oil import program.

The oil industry in the Tri-State is composed primarily of numerous small independent operators. It has, until recent times, been a healthy and vibrant industry and has made a significant contribution to the overall economy of our three member States. For the past 10 years, however, we have witnessed a steady decline, as demonstrated by the fact that where there were employed over 50,000 persons in the Tri-State in the production of oil and gas there are now less than 13,500 so employed, based upon 1966 figures. Production has declined steadily from over 360,000 barrels of oil per day to approximately 250,000 barrels of oil per day. The number of active rotary drilling rigs operating in this area was 200 and has declined to the present time to less than 40, and wildcat drilling for oil is down 80 percent, all of the foregoing declines being over the past 10 years.

One of the more serious problems of the oil industry in our area is the loss of technical personnel to other industries. This is caused by the decline in exploration activity and our inability to meet average wage scales due to the economic conditions imposed by excessive imports. This type of personnel, so necessary to our industry in the search for reserves, requires years of education and experience to be effective. The time element necessary for the education and training of these technicians would not be available to our industry in the event of a national emergency.

The foregoing represents in capsule form the present state of the oil industry in the Tri-State area.

2. What are the factors which have contributed to this decline?

It is a matter of public knowledge and already a part of the record in this hearing that demand for crude oil, as well as consumption of crude oil products, has risen in the past 10 years. On the other hand, while the price index of almost every commodity and service used by the oil producer has risen, the price of crude oil has declined slightly. Illustrative of the foregoing is a table, prepared by a local independent oil producer and an independent oil field supply company, which clearly demonstrates the increased costs to the independent producer covering a period from 1957 through 1966. This analysis shows a slight decrease in the price of crude oil (7.9 percent), while the average cost of labor and materials over the same period increased approximately 47 percent. Attached to this statement and marked exhibit "A" is a compilation of costs from which the foregoing percentages were obtained, and reference is here made to said exhibit.

Thus, faced with constantly rising costs of every commodity necessary to explore for and produce his sole product, and an eroding price for his sole product, the independent oil man has been caught in a rising cost spiral which is forcing many to leave the industry.

Contributing significantly to this situaiton is the importation of foreign crude oil which has saturated the rising demand for crude oil products, and has helped to deteriorate the price paid for domestic crude in an otherwise rising economy. That foreign crude oil is cheaper, in the total analysis, may be argued. That foreign crude oil will always be available is problematical. That foreign crude oil has created a problem involving our national security is fully recognized. That foreign crude oil is undermining a previously healthy and necessary domestic industry is undeniable.

Another important factor contributing to the present plight of the domestic oil industry is the lack of capital available to the domestic oil producer. The basic reason for this withdrawal of investment capital is the lack of incentive, or, to put it another way, the lack of profit potential. If he is unable to attract such investment he will be forced to curtail, if not eliminate, further exploration, and must then confine his activity to the production and liquidation of those reserves he may have already found.

Finally, it should be pointed out that the present mandatory oil import program as administered by the Department of Interior has been used as a club to prevent action which might otherwise have been beneficial to the economy of the domestic oil industry and, thus, to that of the Nation as a whole. Earlier this year, several refiners announced a modest increase in the price of gasoline, to be exact—1 cent a gallon. Using the threat of increased imports through various means in order to increase the supply, the Department of Interior contributed to the decision to withdraw the announced increase. We do not think that such action was intended to be a part of the oil import program, nor, for that matter, do we see the justification for such a move. It is our opinion that the facts would not in any way justify the accusation that the oil industry has in any way contributed to the inflationary trend of the past few years.

3. What steps can be taken to remedy the present situation?

To restore the domestic oil industry to a healthy status will require a return to the marketplace where supply and demand will govern the pricing of both crude oil and crude oil products. Sufficient incentives will have to be provided to the domestic oil man to induce him to return to the high-risk activity of searching for oil. Additionally, investment capital will have to be attracted, and to do so in our free enterprise system will require, at the very least, a reasonable chance for a reasonable profit. We think that S. 2332, imposing a 12.2-percent quota limitation on foreign imports and phasing out all exceptions heretofore created, is a giant step in the right direction. It will not cure the many ills of the domestic oil industry but, we think it is a good beginning and will afford some protection from executive threat, innuendo, the creation of special exceptions for special interests, and the many loopholes in the present mandatory import program. Without such protection, we firmly believe the domestic industry will witness an even more dramatic rate of decline in the immediate future than has been the case in the recent past.

We heartily commend the sponsors of this legislation, urge its passage, and pledge our support and assistance wherever possible. We further wish to thank you for the privilege of presenting this statement on behalf of the Independent Oil Producers & Land Owners Association, Tri-State, Inc.

(An attachment to the above statement follows:)

EXHIBIT "A," PRODUCER COSTS FOR 1957-66, TRI-STATE AREA

Item	1957	1966	Differential	Percent of increase (decrease)
Crude oil	3.15	2.90	0.25	(7.90)
Pumper and roustabout wages	1.25	1.88	.63	50.40
1-in. line pipe	17.17	20.03	2.86	16.65
2-in. line pipe	29.57	41.40	11.83	40.00
3-in. line pipe	59.28	83.62	24.34	41.05
2-in. H-40, EUE tubing	58.19	73.43	15.24	26.19
2½-in. H-40, EUE tubing	78.52	97.60	19.08	24.29
5½-in. casing	141.47	184.68	43.21	30.54
7-in. casing	170.31	218.65	48.34	28.38
ZC 118 engine	456.00	789.00	333.00	73.02
ZC 208 engine	565.00	1,138.00	573.00	101.41
D-40 unit (less weights)	858.60	1,160.00	301.40	35.10
D-57 unit (less weights)	1,539.00	2,158.00	619.00	40.22
200 welded tank	500.00	950.00	450.00	90.00
2-in. stuffing box	25.50	30.20	4.70	18.43
5½-in. by 2 head	137.70	176.60	38.90	28.24
⅝-in. by 2-ft. pony rod, w/cplg	5.95	7.80	1.85	31.09
⅝-in. by 4-ft. pony rod, w/cplg	6.45	8.50	2.05	31.78
⅝-in. by 6-ft. pony rod, w/cplg	7.45	9.15	1.70	22.81
⅝-in. by 8-ft. pony rod, w/cplg	7.95	9.70	1.75	22.01
¾-in. by 2-ft. pony rod, w/cplg	6.30	8.45	2.15	34.12
¾-in. by 4-ft. pony rod, w/cplg	6.80	9.15	2.35	34.55
¾-in. by 6-ft. pony rod, w/cplg	7.30	10.05	2.75	37.67
¾-in. by 8-ft. pony rod, w/cplg	7.80	10.80	3.00	38.46
2-in. EUE by 2-ft. tubing nipple	5.78	14.05	8.27	143.07
2-in. EUE by 4-ft. tubing nipple	7.10	17.25	10.15	142.95
2-in. EUE by 6-ft. tubing nipple	8.42	20.40	11.98	142.28
2-in. EUE by 8-ft. tubing nipple	9.74	23.65	13.91	142.81
2-in. EUE by 10-ft. tubing nipple	11.06	26.85	15.79	142.76
2½-in. EUE by 2-ft. tubing nipple	6.47	15.65	9.18	141.88
2½-in. EUE by 4-ft. tubing nipple	8.29	20.10	11.81	142.46
2½-in. EUE by 6-ft. tubing nipple	10.11	24.45	14.34	141.83
2½-in. EUE by 8-ft. tubing nipple	11.93	28.95	17.02	142.66
2½-in. EUE by 10-ft. tubing nipple	13.75	33.35	19.60	142.54
2-in. bull plug	1.60	2.50	.90	56.25
3-in. bull plug	2.80	4.30	1.50	53.57
2-in. by 1-in. swage	1.80	2.75	.95	52.77
3-in. by 2-in. swage	2.40	3.70	1.30	54.16
4-in. by 3-in. swage	3.20	4.90	1.70	53.12
Chemical injector	57.50	91.00	33.50	58.26
2-in. gate valve	11.20	26.08	14.88	132.85
2-in. check valve	10.40	19.36	8.96	86.15
2-in. plug valve	9.90	14.30	4.40	44.44
3-in. plug valve	17.82	24.31	6.49	36.41
2-in. by 10-ft. in hole pump	218.30	298.50	80.20	36.73
Tubular goods	554.51	719.41	164.90	29.74
Major surface equipment	3,918.60	6,195.00	2,276.40	58.09
Connections and miscellaneous hookup	648.77	996.80	348.03	53.64

Mr. CALVERT. Mr. Chairman, our next witness is Mr. Richard Campbell.

Mr. CAMPBELL. Mr. Chairman, I am Richard Campbell of Vidalia, La. I am here in behalf of the Mississippi-Louisiana Oil Association, as well as being chairman of the cooperating oil and gas associations.

The CHAIRMAN. I am sure glad we have a witness from Louisiana. We don't produce near as much oil as Texas but if you relate it to size or to population, we produce more per capita or more per acre than any State in the Union. We try to make up in quality what we lack in quantity.

Mr. CAMPBELL. I echo those sentiments, Mr. Chairman. That is precisely why I am here.

The CHAIRMAN. I think someone said to ask you where you really live.

Do you live in Vidalia?

Mr. CAMPBELL. That is my office but I live across the river.

The CHAIRMAN. Mississippi.

Mr. CAMPBELL. Right.

Here we would like to heartily endorse the statement of Mr. Calvert of the IPAA, but also bring to your attention the liaison committee does represent the several State associations that are not here personally to add their "yes" to this strong support for this bill 2332. I also point out, Mr. Chairman, that we as producers in the South, particularly in Louisiana, where I have the vast majority of what I have, we did come to the fore in this last Suez crisis and I might add that we as producing companies strained many ligaments to come up with the amount of oil that the State asked us to come up with. It was not an easy task and I daresay that every other State will echo that sentiment. And it is not an easy task because a great amount of oil was pulled from a limited number of wells capable of coming up with additional oil, and there will be damages to these properties that will not be recovered, you might say. Now that we are going back down the scale as you undoubtedly know.

There has never been a time——

The CHAIRMAN. In other words, to cushion the crisis of the Israeli-Arab war, you really had to pull on those wells so hard that you violated good conservation practices and those wells will leave a lot of oil in the ground because of it?

Mr. CAMPBELL. Senator, I don't think there is any doubt about it. In my own case, we had water increases in I think 117 wells, and once the water percentage increases, as you well know, you don't decrease it by slowing the rate down. It is there to stay. And it leaves more oil in the ground because you have exceeded the efficient ratio of production.

I think that is perhaps certainly the same situation with all the other producing States.

The CHAIRMAN. Well, in effect, just for the record, a marginal well might have 3 feet of oil floating on top of an unlimited quantity of salt water. Any time you bring in a dry hole—it is not really dry down our way, it is usually filled with salt water, if I recall correctly—isn't that correct?

Mr. CAMPBELL. Yes.

The CHAIRMAN. People like to say that you just keep running it and hope some oil will come out, and people say you try to drain the Gulf of Mexico down our way.

Mr. CAMPBELL. That is correct. We had a fairly good well producing on the Black River and to get our allowable increases, we weren't disposed to go up but the offset operators were, so we had no choice, that well dropped from 50 to 9 or 10 barrels a day because as we increased the production we also brought in the water which we can't push back. So that well undoubtedly will be abandoned by the time I get back.

The CHAIRMAN. What happens is if you produce your well by good conservation practices, as you lift oil out, other oil seeps across to take its place, but if you produce your well too rapidly it sucks the salt water up from the bottom. Once the salt water gets to that casing, that iron pipe down there, from that time on you keep getting salt water, don't you?

Mr. CAMPBELL. Yes. I am delighted that the Suez-Middle East crisis was over when it was while I still had some oil production left. If it had continued another 90 days I am sure we would have lost other properties in exactly the same way.

I am not the last witness, Mr. Chairman. Mr. Netum Steed is the last one on the list.

The CHAIRMAN. Well, let me just get that point straight that you are making. The point is that the industry right now can't meet emergency requirements without imposing some hardship on producers to really produce more than the wells should be producing.

Mr. CAMPBELL. Mr. Chairman, I am not even sure we could produce the total amount of the oil that the Nation is requiring as of today if imports were cut off. During the recent crisis we produced about everything we could, and we sent somu across the sea, some to Canada—of course, we had quite a backlog of stocks on hand at that time and that did help bridge the gap. In my case, and I can only speak as an individual for my particular area, we were damaged by the demands of this crisis and our damage will be with us after the crisis is over. We can't recover that and I am positive that the same situation is apparent in every producing State.

Mr. CALVERT. Mr. Netum Steed is the next witness.

Mr. STEED. Mr. Chairman, gentlemen of the committee, I am Netum Steed, independent oil and gas producer from Wichita Falls, Tex.

I am president of the Texas Independent Producers & Royalty Owners Association.

We have already endorsed the IPAA statement, Senator, and most of my rather lengthy statement I will skip over in the interests of brevity, but I would like to pick up a few points that have not been brought out before.

We agree with the IPAA as far as the position of Mr. Udall being able to contain the import program to date. We agree he has done a good job, but not the job the program was intended to do. I disagree that we have accomplished the main objective which is to maintain a healthy oil industry. Our industry in Texas is not healthy. Our drilling is down the same as everybody else's. Many of our operators have gone out of business and even though we are still, some of us, lucky enough to stay in the business our industry is far from being healthy.

So we take exception on that point.

Senator McCarthy awhile ago brought out a point here about our Nation's ability to find more oil and I would like to quote from Mr. Udall in July of this year:

> We are in no immediate danger of running out of domestic petroleum supplies. Known and anticipated reserves are considered wholly adequate to carry us into the next century on the basis of the best judgment on demands.

That statement is based on the premise that that oil is there and we have a healthy industry to find that oil, but if our industry continues to be depressed and these points have been brought out about seismographic activity and drilling rigs, then we will not find the oil and we will be short of oil, in fact. On the first page of our statement we say that today we are a have-not nation as far as oil is concerned because we are importing 2,600,000 barrels daily and our reserve capacity, the reserve capacity that your State and mine has, Senator, to produce this oil is only 2,350,000 barrels daily. We are a quarter of a million barrels short today of being self-sufficient in oil.

Now, part of that oil is being made up from Canada, a little more than that, more than the 250,000 barrels but as you pointed out, if we got into a general war where our imports were cut off except for the overland imports, we assume the overseas imports would be cut off into Canada, too, and we would have to replace their oil in the Montreal area. So we would still be short of oil and would have civilian rationing.

Mr. Chairman, we find it shocking that more concern about this development has not been evidenced by the administration. Repeatedly we have brought to the officials of the Interior Department the facts of our rapidly deteriorating oil-producing industry. While they have listened patiently to us and have agreed to the dimensions of the problem and assured us of their concern, no changes were forthcoming in Federal oil policy to enable this accomplishment.

On the contrary, a number of changes have occurred or are under consideration to render the import program less stable and effective, and those were pointed out on the chart a while ago.

Now, considering that the best-informed persons seem to agree that the alternative sources of energy such as oil shale that the Senator mentioned a moment ago from our vast domestic deposits will not enter the picture in a truly significant way for another decade, we either must step up the domestic drilling sharply or look to vastly increased imports. Responsible studies point out that unless there is a sharp increase in domestic exploration for oil, the domestic oil requirements by 1985 will necessitate an import level of at least 8 million barrels a day, a situation that would thwart even the most stringent efforts conceivable to close this Nation's payments gap.

That is a trend that is going on, a trend during the mandatory import program that shows that well completions have declined 38 percent while the import program is trying to help us. So they haven't stopped the downward trend and that is an alarming thing to us.

Skipping over most of my testimony, and it will be part of the record here, I am sure, and I feel it is worth the staff's study and yours, too, sir, Mr. Udall stated the other day, "The main reason for the program's success is having a little elbow room," a point he chooses to illustrate by referring to current plans to (1) carry over into 1968 import quota tickets which importers did not bring in during the Mideast disruption because of the Arab boycott and higher tanker rates; and (2) provide for more liberal imports of heating oil which some New England consumer interests want to obtain at prices below those currently available.

We would like to examine briefly these two cases he uses to illustrate his demand for unlimited maneuverability which he himself declared to be the ceiling. This bill would in no way limit his ability to provide for either the carryover of unused Mid-East import tickets or the provision for more generous fuel oil quotas. Obviously, then, the maneuverability he seeks is to exceed the 12.2 ratio if he deems it appropriate for any purpose.

We think particular attention should be drawn to the point that unless and until other guidelines are provided, it is entirely possible by administrative fiat to increase significantly the level of permissible imports under the 12.2-percent ratio while preserving intact the 12.2-

percent factor. This has occurred during Mr. Udall's tenure and it might be accomplished by either exempting categories of imports from the ratio or revising the manner in which the 12.2 factor is applied to domestic production.

If the administration wants to increase imports without changing the 12.2, they simply change the production part of the formula from actual production of a previous period to estimated production. Now, that was handled in the case of Canada, each year they estimated the production to come from Canada and each year they underestimated it considerably for the last several years as shown in my testimony. This year they have underestimated it to the extent of 80,000 barrels per day. So that for this year, for example, if the projection is correct for 80,000 barrels a day, there will be 29 million barrels of oil dumped in this country outside the 12.2-percent quota.

As they do this every year, it is never made up. They don't take it off the next year's quota. That oil is produced by the Canadians rather than the U.S. operator, and that is, we feel, a loophole.

Now, the Secretary hasn't been specific yet whether he intends to make up these unused tickets from the Middle East operation that were not used, Whether he intends to put them within the 12.2 or add them on top of the regular 12.2, in which case we would have a further depression of the American production in coming years. He says he is going to stretch them over the 12.2 but the exact method by which he is going to do it hasn't been spelled out yet. We are apprehensive that it might be added on top and technically still be within the 12.2. They can make up their production but in Texas, if I don't make my production 1 month, I can't make it up the next month.

We have quite a number of charts in the back of our folder. I have already mentioned chart 5 which shows we are a "have-not" nation in oil.

Chart 3 shows in Texas that our success ratio, the number of dry holes that we drill hasn't changed over the period of years. We still drill about 33 percent dry holes. So it is not that we don't have the oil to find. It is simply that we don't have the incentive or the people who are interested in going out and hunting for it any more because the program is uncertain and other businesses seem to attract the money instead of coming into our business.

The CHAIRMAN. I am going to ask that these charts that you have in your statement be made a part of the record.

Mr. STEED. Thank you very much. I think the rest of my statement has been pretty well covered. We concur with your statement, sir, that this legislation simply would establish a few principal legislative guidelines leaving administrators of the program with broad discretionary authority in the administration of the program within those guidelines. We think the Secretary of the Interior needs some help as Mr. Calvert pointed out, that the pressures that are put on him are so great that he needs some help from the Congress to insulate him from those pressures. Such is the proper function of Congress as we understand it, and we believe the administration needs and deserves assistance such as that represented by this legislation, and we most sincerely urge its adoption at the earliest opportunity.

Thank you.

(The prepared statement of Mr. Steed follows:)

PREPARED STATEMENT OF NETUM A. STEED, PRESIDENT, TEXAS INDEPENDENT PRODUCERS AND ROYALTY OWNERS ASSOCIATION

Mr. Chairman, Gentlemen of the Committee, I am Netum A. Steed, independent oil and gas producer from Wichita Falls, Texas, and president of the Texas Independent Producers & Royalty Owners Association. I would like to touch briefly on a few points which we believe to be of particular interest.

It is our position that the United States is very rapidly becoming an oil "have-not" nation for lack of a more positive and meaningful oil import policy. Without intending to be political in any way, we must take vigorous exception to the position of Interior Secretary Udall in the matter before you. We cannot concur in the position that all is well and that the situation should be left as is, that the oil import program is a success in terms of its purpose, and that "elbow room" as Mr Udall contends, is "the main reason for the program's success." Quite the contrary, we believe that there is an urgent need for Congressional attention to failure of the program to achieve its declared purposes. The domestic producing industry is continuing to deteriorate at a rapid pace. We are in the eleventh year of drilling decline in this country—and, as a consequence, *our defense-vital reserve productive capacity has already dwindled to the point that this nation is now importing more oil than it holds in reserve productive capacity.*

Without burdening you with detail, let me simply note that prior to 1948 the United States was a net oil exporter. Between 1948 and 1966, even though we were net importers, we imported less oil than we had available in reserve capacity held by the domestic oil producing industry.

Chart V appended to our testimony shows a situation which we think should be viewed with general alarm by you gentlemen, by your colleagues in the Congress, and by the Executive branch of our government.

The harsh fact is that we became dependent upon foreign oil during 1966. Now for the first time oil imports exceed the amount of readily producible oil held in reserve within this great nation. In a sense, then, we are already an oil have not nation, and this is so not because it is necessary but because federal oil policy has made it so.

By the end of 1967 the U.S. will be receiving an estimated average of 2,600,000 barrels daily in imports, but will have effective reserve productive capacity of no more than 2,350,000 barrels daily. This means that, speaking conservatively, America this year is running a deficit of at least a quarter-million barrels daily—and has, in this sense, needlessly allowed itself to join the ranks of oil have-not nations.

Mr. Chairman, we find it shocking that more concern about this development has not been evidenced by the Administration. Repeatedly we have brought before officials of the Interior Department the facts of a rapidly deteriorating domestic oil producing industry. They have listened patiently to us, have agreed to the dimensions of the problem, and have assured us of their concern. As early as March 1966, Secretary Udall himself cited figures showing that, just to hold our present reserve-to-production ratio, we will have to step up domestic exploration and drilling sharply, so as to increase reserves at a rate at least twice that of the present period. But no changes were forthcoming in federal oil policy to enable this accomplishment. On the contrary, a number of changes have occurred and are under consideration to render the import program less stable and effective.

I would like to point out that there is little dispute within the industry or within the government about the fact that we're heading toward an oil-deficit of considerable magnitude. To illustrate what informed industry leaders are saying, let me refer to testimony last month before the House Commerce Committee by Charles F. Jones, president of Humble Oil & Refining Company. He warned that domestic petroleum requirements will rise rapidly over the next few years, requiring a gross addition of at least 72 billion barrels during the next 14 years. Like Mr. Udall, he pointed out that this means we must step up domestic exploration and drilling, inasmuch as we have only discovered 48 billion barrels in the last 14 years.

Earlier this month, to cite another industry opinion, Millard E. Stone, vice president and director of Sinclair Oil Corporation, said that between now and the year 2000 the U.S. energy requirements will be such that we will need 11 billion barrels of oil annually to meet domestic demand, three times what it is now. That's allowing for other fuels. Said Mr. Stone: "The nation's and the world's total energy requirements will be so huge that there will be plenty of room and work for all available sources—oil, gas, coal, water, nuclear reactors, and whatever comes between now and then."

Considering that the best informed persons seem to agree that alternative sources of energy, including oil shale from our vast domestic deposits, will not enter the picture in a truly significant way for at least another decade, we either must step up domestic drilling sharply or look to vastly increased imports. Responsible studies point out that, unless there is a sharp increase in domestic exploration for oil, domestic oil requirements by 1985 will necessitate an oil import level of at least 8 million barrels daily—a situation which would thwart even the most stringent efforts conceivable to close the nation's payments gap.

Yet, during the period of the Mandatory Oil Import Program, total annual well completions have declined by some 38 percent.

This situation, for some reason, does not seem to alarm the Administration. Instead of moving toward a more meaningful oil import program, the program is being steadily chipped away on all fronts.

As Senator Long puts it: "It is obvious that positive and affirmative action is required in order to assure our future energy needs. It is obvious that the present mandatory oil import program has been weakened by the creation of loopholes in the program and is seriously threatened by additional ones. As a result, the industry is losing confidence in the program."

Mr. Chairman, it is our judgment that you have precisely stated the plight. The industry has indeed lost confidence in the program. We need less maneuverability and more stability and dependability in the program. If it is to regain that confidence—the confidence that it must have to go about with renewed vigor to explore for and find new reserves—then guidelines will have to be provided and firmed up. That can be done, we submit, only if Congress takes an appropriate interest in the matter.

I think it would be fair to say that an editorial of last August 7 in the Oil and Gas Journal sums up industry sentiment concerning the oil import program as presently interpreted by Mr. Udall and others in the Executive branch. Let me quote briefly from that editorial.

"The integrity of the imports control program has been undermined again. The latest presidential proclamation is in the name of clean air. This comes on top of other recent proclamations giving the Secretary of Interior authority to decontrol asphalt and to give import quotas to petrochemical manufacturers and foreign trade zones. Still other changes are being considered, such as carrying over unused 1967 import tickets into 1968. The import barriers have been constantly nibbled away ever since the controls were set up. . . . Perhaps no single one of these steps, by itself, will permit a huge volume of increased imports. But taken together they undermine the stability and certainty of the program. And every weakening invites further attacks. Strong pressures, economic and political, always exist to use any legal advantage that can be found. Experience has shown that the Interior Department, charged with the responsibilty of maintaining the integrity of the program, is not always able to resist such pressures. . . . Whatever the intrinsic merits of any one of the imports changes—and the merits of some are hotly disputed—the result is a loss of confidence in the permanence of the program. No refiner or producer, whether an importer or not, knows how to plan. And the original objective seems to have been forgotten. . . . The constant erosion of the barriers destroys the confidence of the domestic industry and discourages new development. It is no wonder that there is a strong movement to have Congress write a new law that will spell out the control program with considerably more definitiveness than the vague and permissive language of the present statute."

Now we believe that Mr. Udall cannot be unaware that the industry has little confidence in his assurances that he can hold a 12.2 ratio while going merrily along making special provision for this or that category of imports, on grounds often totally unrelated to the national security purpose of the import program. Yet, he has presumed to lecture those of us in the industry who come to you for assistance, declaring that in doing so we are "picking a fight" with him. He describes himself as "personally disturbed" that Congress would presume to provide meaningful guidelines or limits within which bureaus may function. I can only say that we are personally disturbed that he fails to appreciate the need for such directives and the appropriateness of such Congressional response to the present unfortunate situation. He says he is "nonplussed" as to why anybody would limit his maneuverability. We are nonplussed as to why he has not yet acknowledged the need for Congressional help in discouraging the mounting pressures for ballooning the 12.2 ratio to the breaking point.

Incredibly, Mr. Udall contends that "the main reason for the program's success is having a little elbow room"—a point he chooses to illustrate by referring to current plans to (1) carry over into 1968 import quota tickets which importers did not bring in during the Mideast disruption because of the Arab boycott and high tanker rates; and (2) provide for more liberal imports of heating oil which some New England consumer interests want to obtain at prices below those at which it is currently available. We would like to examine briefly these two cases he chooses to illustrate his demand for unlimited maneuverability.

We submit that unless Mr. Udall plans to exceed the 12.2 percent ratio which he himself declares to be the ceiling, this bill would in no way limit his ability to provide for either the carryover of unused Mideast import tickets or the provision for more generous fuel oil quotas. Obviously, then, the maneuverability he seeks is to exceed the 12.2 ratio if he deems it appropriate for any reason.

DEFINING THE 12.2 STANDARD

We think particular attention should be drawn to the point that unless and until better guidelines are provided, it is entirely possible by administrative fiat to increase significantly the level of permissible imports under the 12.2 percent ratio while preserving intact the 12.2 percent factor. Precisely this has occurred during Mr. Udall's tenure. It may be accomplished by either exempting categories of imports from the ratio or revising the manner in which the 12.2 factor is applied to domestic production.

Non-residual imports into Districts I–IV were originally 10.7 percent of domestic production when voluntary controls began. The standard was changed later to 9 percent of total demand, later changed back to 12.2 percent of production. When an Administration wanted to increase imports without changing the 12.2, they simply changed the production part of the formula from actual production of a previous period to estimated production.

My point is that if we're going to have any permanence in the import program, surely we need some firming up of guidelines and preferably some legislative definition of terms.

As a matter of fact, the 12.2 ratio does not even now cover all nonresidual imports into Districts I–IV—and covers considerably less than half the total oil imports into the nation. There are a number of leaks in the 12.2 ratio, the most flagrant of which perhaps results from the fact that the Interior Department regularly and deliberately underestimates what imports from Canada will be each quota period.

LOOPHOLES IN PROGRAM

By way of providing an example of the kinds of loopholes which are adding intolerable pressures upon the 12.2 ratio, I'd like to discuss with you the manner in which these imports from Canada are treated.

As you know, imports from Canada are exempt from direct quota limitations on grounds that this oil is relatively more secure than the oil which has to move by ocean-going vessel. Yet these imports are supposedly kept within the 12.2 ratio, which means that any time imports from Canada increase there has to be a corresponding reduction in imports from some other area. This is all right so long as the Canadian increase doesn't get out of bounds, in which case something has to give; either Venezuela or U.S. producers suffer.

The way this has been handled heretofore is most unsatisfactory all around, in my judgment. I note also that Senator Long has deplored this arrangement and called it a serious loophole needing attention. Said he:

"This is a large loophole in the program and it threatens to grow larger. If the mandatory oil import program is to be meaningful and effective, this Canadian loophole and the other loopholes and threats to the program which I have mentioned must be closed."

Now here's what happens. The Department of Interior makes an "estimate" of how much oil they expect during the forthcoming quota period from Canada.

Then the remaining portion of imports under the 12.2 ratio are allocated to other source areas. Since the Canadian imports always grow so much more than estimated, that would mean pinching Venezuela and other source areas in the normal course of events. But to avoid this, Interior officials simply underestimate what the growth of Canadian imports will be each year, so that the effect is to make domestic production pay the price of Canadian excesses. Let me be specific.

In 1963 the Interior Department "estimated" that imports from Canada would be 252,000 barrels per day. But Canadian imports exceeded that level by 13,000 barrels per day.

So in 1964 Interior raised its estimates of Canadian imports by a whopping 30,000 barrels a day. Even so, Canadian imports exceeded this by another 17,000 barrels per day.

In 1965, the Department jumped the "estimate" an additional 28,000 barrels daily. What happened? Canadian oil met the allowed increase and topped it by another 13,000 barrels per day.

In 1966 the "estimate" was again raised by 25,000 barrels per day for a total of 335,000 barrels daily. Once again Canadians revealed their disdain for this informal arrangement and exceeded the estimate by some 38,000 barrels per day.

In 1967, the "estimate" was raised to 370,000 barrels a day, and imports are projected at around 450,000 barrels a day—an average of 80,000 barrels daily at the expense of domestic producers.

Now there's no provision in the import program for balancing out this excess from Canada, so the result is that domestic production suffers by whatever amount the Interior Department "underestimates" imports from Canada. I say to you that it's time Interior got realistic with its "estimates," so that the effect will not be to exceed the 12.2 ratio while technically remaining within it.

This arrangement is simply not right, and I hope that point is made clear b? the Congress. So long as Mr. Udall allows this situation to go on, he is not being fair when he says that non-residual imports into Districts I–IV are being held within the 12.2 ratio. They are not.

In this connection, room under the 12.2 level will now have to be made for the approximate 125,000 barrels daily by which Canadian imports increased in recent months. We now learn, moreover, that the President is being urged to approve the agreement by which Canadian oil will be supplied the Chicago market via the Interprovincial pipeline.

In passing it should be noted that Canadian gains in this market during the Mideast crisis are considered permanent, even as U.S. production is being sharply curtailed. When foreign imports into the East Coast of Canada were cut off, U.S. production had to be increased to supply Canada's needs—since Canada imports about 48 percent of the oil consumed in that country. But as soon as cheaper foreign oil became available there, U.S. production had to be cut back.

The problem of leak or loopholes in the program was summed up by Chairman Long in these words:

"If the program is to be meaningful and effective, if it is to have stability and if the industry is to have confidence in the program, this limitation on imports into Districts I–IV must be firmly established. Unfortunately, during the past year, administrative actions have been taken which very seriously threaten the stability and integrity of the 12.2 limitation. I refer to the administrative actions involving first, petrochemical feedstocks; second, foreign trade zones; third, authorization for imports of asphalt outside the 12.2 limitation; fourth, the recent action which defines number 4 fuel oil as residual fuel oil and, therefore, permits its importation outside the 12.2 limitation; and, fifth, the recent proposals regarding low sulfur oil aimed at alleviating the air pollution problems." I continue quoting from Senator Long:

"The import program cannot be maintained as an effective instrument if it is to be used to cure the economic ills of Puerto Rico, the Virgin Islands or Guam, or if it is to be used to solve the worldwide competitive problems of the petrochemical industry; or if it is to be used to solve a localized asphalt or other product supply problem; or if it is to be used to solve the pollution problem." The applications for special treatment of imports arriving via Puerto Rico, the Virgin Islands and Guam, he said, would alone result in over 125,000 barrels daily more oil shipments into the mainland United States.

UNUSED MIDEAST TICKETS

Next, we would like to comment on Interior Department plans to hold open a place in the U.S. market for Middle East oil imports which were not available through part of 1967 because of the Arab boycott of America and high tanker rates.

Even though domestic allowables are cancelled when they are not produced, we have no objection to allowing unused 1967 quota tickets a priority status in 1968—*provided total non-residual imports do not exceed the 12.2 ratio in 1968.*

We find reason for alarm, however, in the preliminary announcement of plans by Assistant Secretary Cordell Moore. Although details are not yet spelled out, there is indication that 1967 unused quotas will be permitted on top of normal imports under the 12.2 ratio—which some describe as "technically within the 12.2 ratio" because of the shortfall of imports from this source in 1967.

Such an interpretation would amount to an insistence that the 12.2 ratio is a floor instead of a ceiling. It would be in effect holding open the door to unreliable Mideast oil until Arabs decide it can be dumped on us and until the importers involved fund that tanker rates have dropped sufficiently to make it profitable to supplant domestic production with the so-called cheap Mideast oil.

State conservation officials have urged Interior to reduce imports below the 12.2 ratio as necessary to keep states from having to do all the cutting back necessary to prevent another Mideast-aftermath oil glut. There is no indication that Mr. Udall is even giving serious consideration to the plea that imports share the cutback burden. The net result is that domestic producers are being penalized for meeting their obligation to the nation and the free world by making domestic oil available, at considerable expense, to fill the shortages resulting from the Mideast supply breakdown. Our oil policy officials, it would seem, have learned nothing from the most recent Mideast crisis.

I suggest that the urgent need of the moment is for an overall or comprehensive look at the oil import problem at this time, and that the situation is such that this can best be provided by the Congress. Several Departments of the Executive branch of our government—notably Interior, Commerce, State, and Defense—are involved in oil policy decisions at present, but it seems increasingly clear that none is viewing the picture as a whole.

To illustrate my concern, let's review the status of the unused quota tickets for Mideast oil. The Interior Department people are understandably concerned with the protection of equities among importing companies, and don't want to cancel out a company's quota for 1967 imports simply because that company hadn't brought in its quota before the Mideast boycott of America began. But State Department officials are most concerned with equities among source countries, notably Venezuela. If 1968 imports are held within the 12.2 ratio, and companies which had holdover tickets allowed to import that Mideast oil within the 12.2 ratio, the effect will be to give a priority to Mideast oil over Venezuelan oil. In a sense the Arab nations will be rewarded for their misbehavior, or so it seems to Venezuelan interests in any event. So what happens? In the normal course of events, I suspect the "solution" will be to give companies the right to use their 1967 unused Mideast import tickets in 1968 over and above the 12.2 ratio. The result of that compromise would be simply to make the domestic producer move over once again while imports enjoyed a priority or preferred status. I strongly suggest to you that this is exactly the kind of maneuverability which Secretary Udall had in mind when he told proponents of this bill they were picking a fight with him when they presumed to prescribe legislative limitations upon his authority over oil imports.

CHARTS SUMMARY

We have appended to this statement a few charts which depict the situation in terms we believe most meaningful.

In addition to the chart illustrating the Canadian excesses over "estimates," Chart I shows the sharp decline in U.S. drilling activity during the life of the program. In 1959, the nation's operators drilled 51,764 wells. By 1967, this annual total had dropped to about 32,100 wells, a decrease of 38 percent. By all counts, we are drilling only about half as many wells as are necessary to maintain adequate home supplies for the foreseeable future.

Chart II illustrates the dismal drilling experience in Texas, the nation's leading oil producing state. Since 1959, the state's annual completion of exploration and development wells has dropped from 10,203 to an estimated 4,615 in 1967—a 54.8 percent decline. For those who would contend this is due to poor drilling success ratios, we would point to chart III. Here it is noted that Texas' dry hole ratio during the life of the mandatory program has remained reasonably stable, keeping within the tight range of 34.8 to 37.8 percent of total wells drilled annually.

Chart IV reveals the serious consequences of industry developments upon Texas' reserve oil productive capacity, and shows the clear relationship to the precipitous drop in drilling. By the end of this year, it is projected that reserve capacity in Texas will equal only about three-fourths of what it was in 1959. If there is no correction in the downward trend in drilling activity, this decline in reserve capacity will rapidly accelerate in the next few years.

Chart V, as mentioned earlier, points up this same trend on a national level. Although there's still time to correct the situation, we've already crossed over into the unhappy status of an oil have-not nation, in the sense that we can't right now produce all the oil for which there is a demand in this country: If it is the wish of the President and the Congress that this be so, then there should be a declaration of some sort to the effect that this is consistent with deliberate national policy. We do not believe either the President or the Congress believes this is a healthy and safe situation. For that reason, we think the facts should be faced squarely—and such changes made as necessary to reverse the downward trend in domestic drilling without further delay.

Gentlemen of the Committee, we believe the legislation here under consideration is an important step toward preserving our nation's defense-vital reserve productive capacity. The domestic oil producing industry is not healthy, nor is the important program accomplishing intended and avowed objectives. The consequence to our national security is potentially most grave.

Oil remains the number one munition of war, and we've learned only in recent months how reliable foreign oil is in time of emergency. The only way to keep foreign oil available and cheap is to have the reserve capacity here adequate so that it is not essential to our security and well-being.

As we see it, Congressional guidelines relating to non-residual imports into Districts I–IV will serve the purpose of bolstering the import program in such a way that it cannot be broken at the whim of some importing interests. Instead of non importers being aligned against importers, the burden will be upon each importing interests to justify its status as an importer in relation to fellow importers. The fight will be between themselves for a piece of the pie, not between importers and non importers. Instead of simply finding another excuse for more imports and taking it out of the share intended for domestic producers, importers will have to justify their quota in terms of its relationship to the whole national security objective of controls. If petrochemical companies, for example, can go to the OEP and obtain a national security finding for some special provision in the program, and can then persuade the Administration to grant them freer access to foreign feedstocks, and can successfully run the gauntlet of opposition from other importers who will have to move over to allow for their quotas, then indeed the program can serve to afford them import quotas.

But the paramount point will have been made: the import program is intended to preserve a healthy domestic oil producing industry. We don't wish to deny the Administration any necessary flexibility or maneuverability. We desire only to help the Administration accomplish the purposes of the import control programs.

We concur with Senator Long's statement that this legislation simply would establish a "few principal legislative guidelines," leaving administrators of the program with broad discretionary authority in the administration of the program within those legislative guidelines.

Such is the proper function of Congress, as we understand it, and we believe the Administration needs and deserves assistance such as that represented by this legislation. We most sincerely urge its adoption at the earliest opportunity. Thank you.

CANADIAN CRUDE AND PRODUCT IMPORT GROWTH UNDER THE MANDATORY IMPORTS PROGRAM: 1959-67

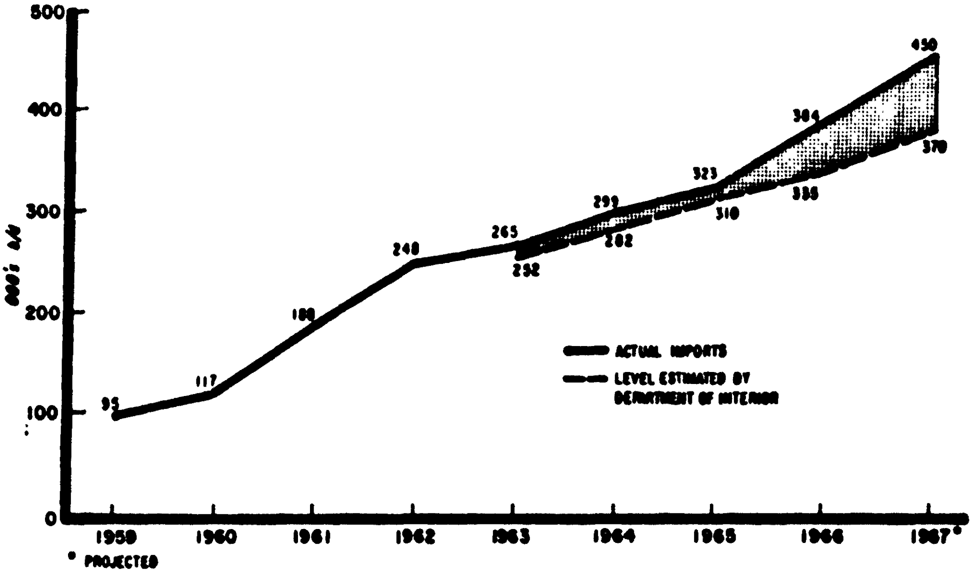
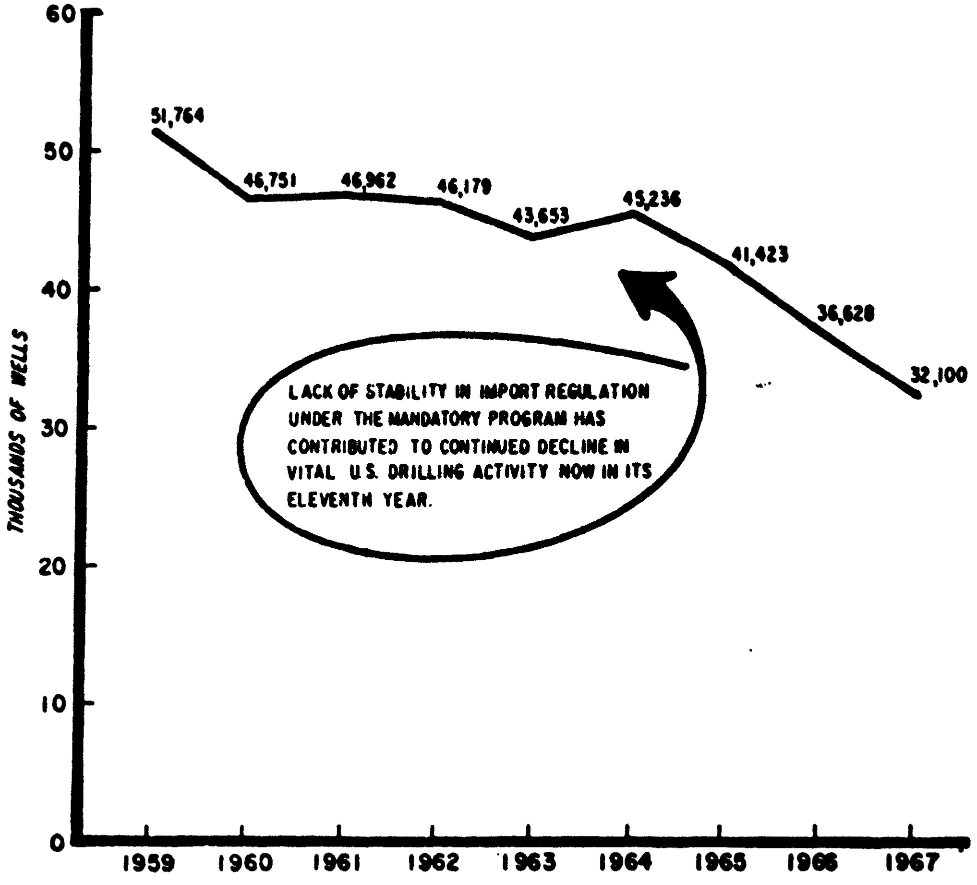


CHART I
TREND IN TOTAL U.S. PETROLEUM DRILLING ACTIVITY: 1959-1967



LACK OF STABILITY IN IMPORT REGULATION UNDER THE MANDATORY PROGRAM HAS CONTRIBUTED TO CONTINUED DECLINE IN VITAL U.S. DRILLING ACTIVITY NOW IN ITS ELEVENTH YEAR.

CHART II

TRENDS IN TEXAS WELL DRILLING UNDER MANDATORY PROGRAM

1959-1967

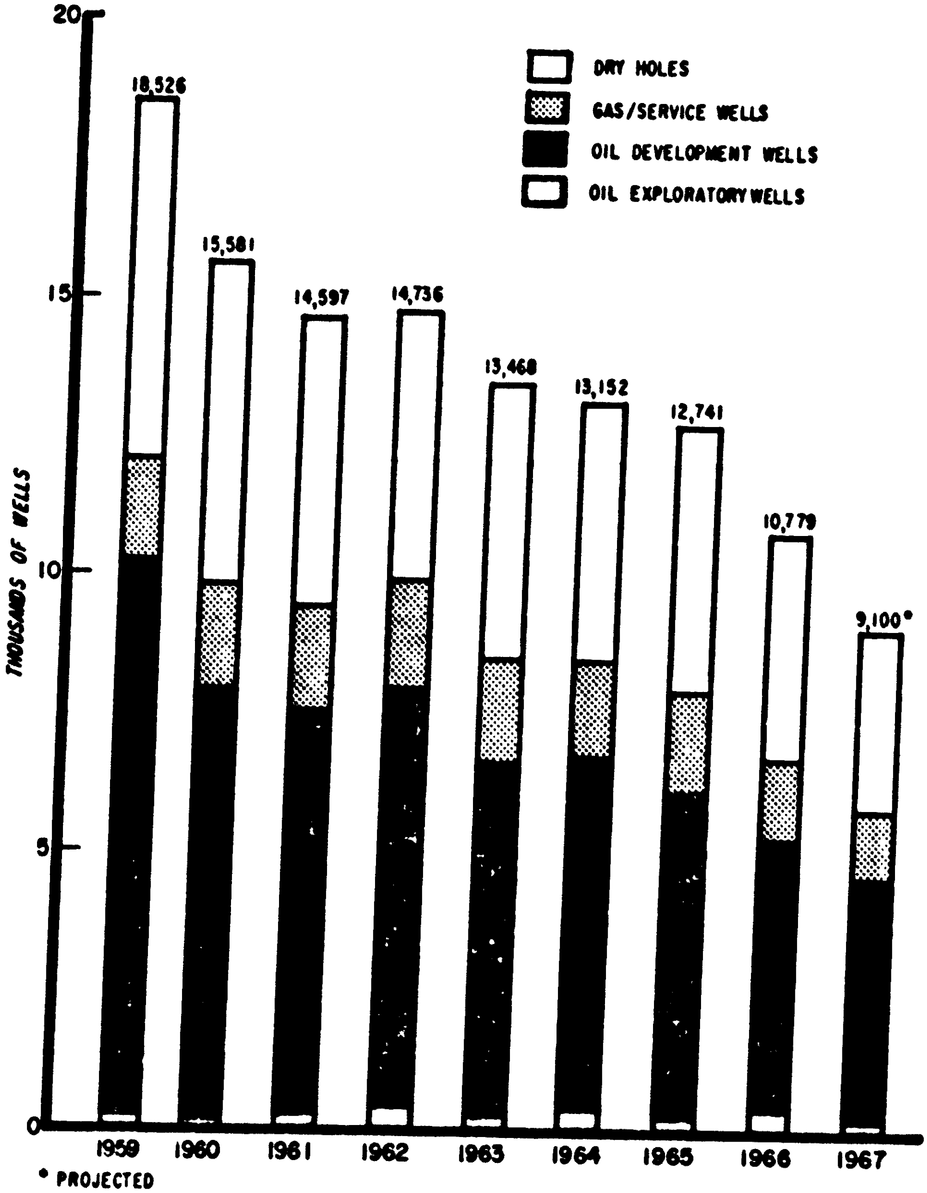


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CHART III
PERCENT OF TOTAL TEXAS WELLS RESULTING IN DRY HOLES 1959 - 1967

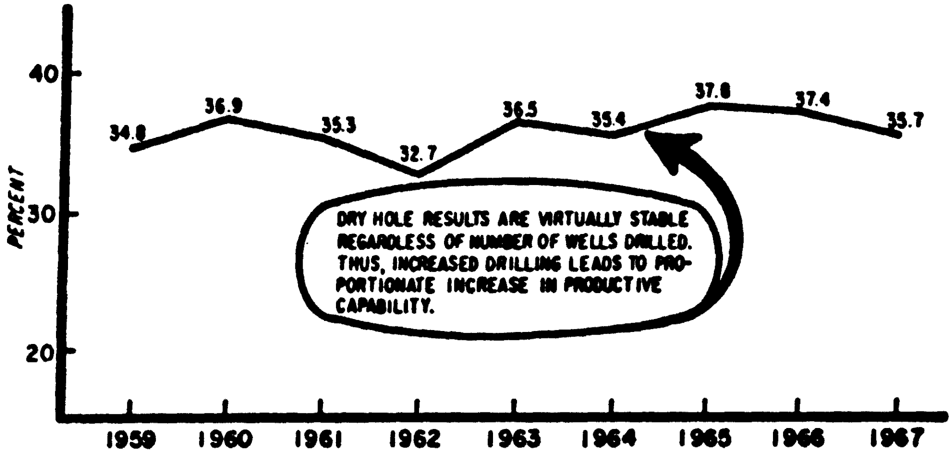
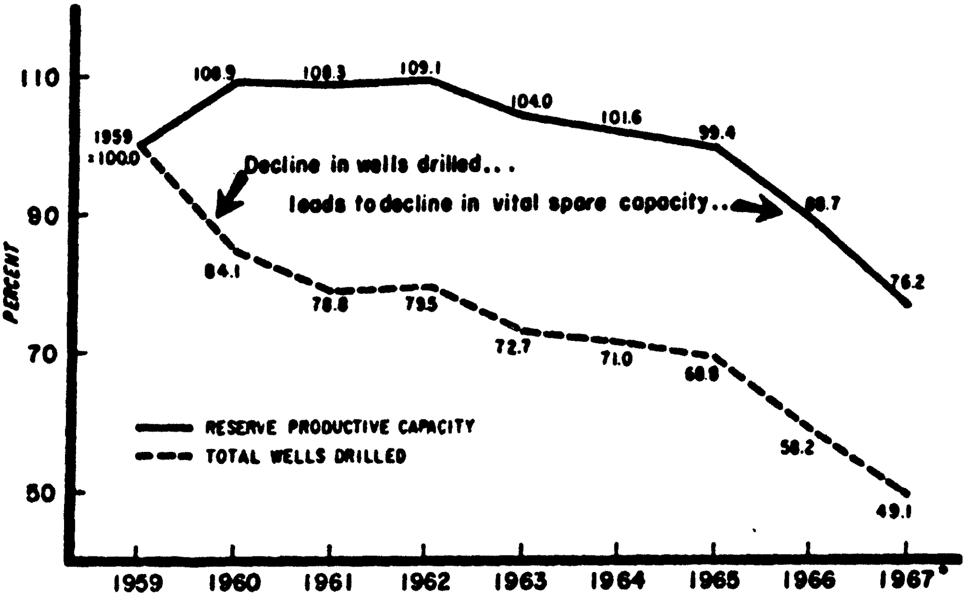
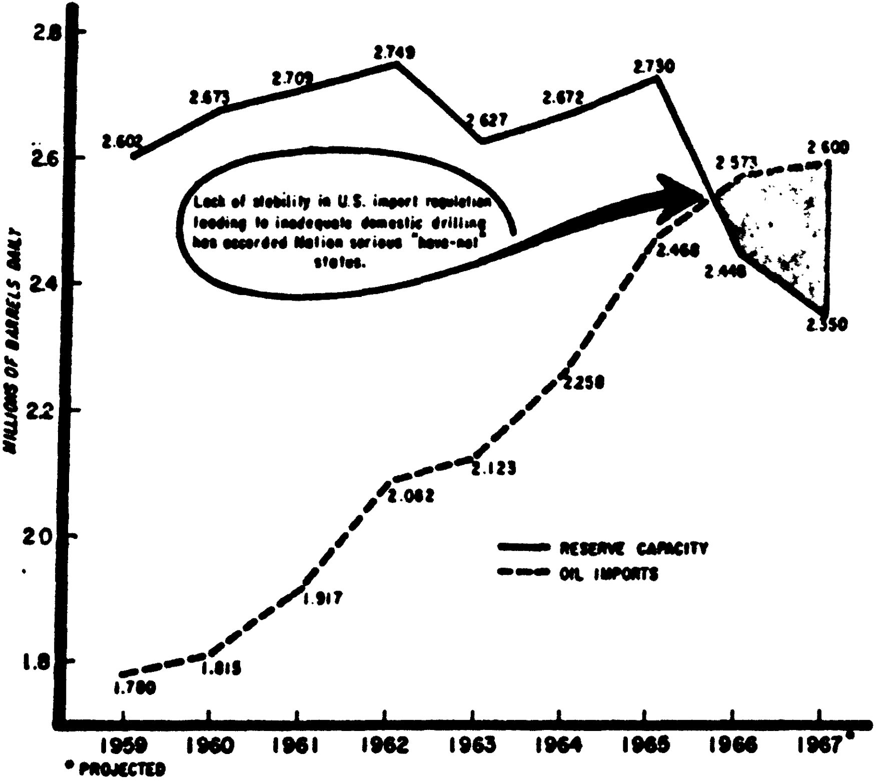


CHART IV
RATE OF CHANGE IN TEXAS' RESERVE OIL PRODUCTIVE CAPACITY AND TOTAL WELLS DRILLED DURING PERIOD: 1959 - 1967



* PROJECTED

CHART X
TOTAL U.S. OIL IMPORTS COMPARED WITH U.S. RESERVE OIL PRODUCTIVE CAPACITY
1959 - 1967



Lack of stability in U.S. import regulation leading to inadequate domestic drilling has accorded Nation serious "have-not" status.

The Chairman. Thank you for a very fine statement. Let me get one or two things straight in my mind.

Under the program that we presently have, is there any limitation at all on the amount of Canadian and Mexican oil that those countries can bring in here if they produce it in those countries?

Mr. Calvert. There is no limit, sir. It falls within whatever they negotiate with the proper people in our Government. Whatever is brought in is deducted from the 12.2. It squeezes the other areas, but it is a matter of arrangement between the higher authorities of our country. Also, of course, depending upon the trade that can be made by the companies involved that want the oil, but it is I would say, negotiated. I may be wrong. Mr. Senator, you may have to consult somebody in Interior and State to get better facts.

The Chairman. My understanding is a while back—let's just face it, since they put this program into effect, every idea that could be dreamed up by the fertile mind of man has been put to work to find ways to develop loopholes in this program and get around it. First one gimmick and next another, special producers, special situations, every kind of exception that could be dreamed up. They ought to stop that movement of oil from Matamoras to Brownsville, Tex., or is that still going on?

Mr. Calvert. It is still going on.

The CHAIRMAN. We put in a program—a provision saying that oil from Canada and Mexico is permitted to come in overland without violating the oil import quotas. Now, then, some fellow produces his oil in Tampico, puts it in one of these big tankers—how many barrels do these huge tankers carry? The biggest that they have?

Mr. CALVERT. Upward of a million barrels.

The CHAIRMAN. All right. So some fellow takes a tanker and puts a million barrels of oil in it and he sails it to Matamoras right across the Rio Grande River from Brownsville, Tex. He just pumps it ashore, trucks it to Matamoras, then trucks it back again.

Now, what kind of sense does that make? Pretty good gimmick, I would say, wouldn't you? I wouldn't mind being in that business myself, even though I enjoy serving here. [Laughter.]

But do you mean to tell me that the Secretary of the Interior hasn't shut that thing down yet? Actually, that is a matter of regulation, isn't it, that could be changed tomorrow?

Mr. CALVERT. It could be, sir. It hasn't drawn any exceptional fire from the Texans and from our association recently because it has been built into the program and we have learned to live with it, but as you are pointing out, it shows the inventiveness of man in devising ideas that get around regulations.

The CHAIRMAN. I am amazed they don't do more of it. What I can't understand is why they don't just lay a pipeline from Brownsville back to the tanker so you just run it across to Matamoras, put it across the Rio Grande, pump it right back aboard that tanker, and then deliver it at New Orleans and Baton Rouge or Houston, and save the problem of having to build a bigger pipeline to put it somewhere else. A tanker is the most efficient way to deliver that oil that there is, isn't it? An enormous tanker? It is probably cheaper than a pipeline, wouldn't you say, if you are talking about a tanker that big? It is very competitive anyway, isn't it?

Mr. CALVERT. It is.

The CHAIRMAN. So why they don't close that loophole I can't for the life of me figure out.

Mr. CALVERT. The overland Mexican import has grown into the program and has been stabilized under the 12.2, yes, sir.

The CHAIRMAN. As I understand it from your industry, you are not here to pass judgment on any of that. As far as you are concerned, if they want to give a quota to somebody to help Guam, that is all right with you. If they want to give a quota for somebody to put a refinery on the Virgin Islands, that is all right with you. If they want to help Puerto Rico, that is all right. If they want to do something for the chemical industry, that is all right. If they want to use it for highway beautification, that is all right. You are not here to quarrel with that. You want to say that the domestic oil industry requires a certain percentage of the market if it is to be able to meet this Nation's defense requirements. That is all you are talking about.

Mr. CALVERT. We go beyond that, Senator Long, because the program was devised for our national security and the avenues for which it is used have to be grounded on that base, otherwise the integrity of the program is going to be lost. So we do oppose the applicants who can't justify a national security status unless the administration and Congress change the national security clause which no one has ever suggested be done.

The CHAIRMAN. I see. Well, now, as I understand it, though, you are not asking much that you don't have right now except you would like to have it in the law rather than have it at administrative discretion of the President and his Cabinet.

Mr. CALVERT. Right, sir. As Netum Steed and Stark Fox said, we are basically not asking for anything more than we have now except putting a rigid level in law rather than leaving it to executive interpretation subject to irresistible pressures.

The CHAIRMAN. Well, now, I have the impression that your industry was a little bit unhappy about that Canadian situation because you felt that they would make these estimates and then fail to stay within them.

Mr. CALVERT. We aren't happy about that but we don't blame the Canadians. We blame the administration. I mean the administration of the law. We believe that they could, if Canada has 450,000 barrels allowable for the next 6 months, make them stay within it. If it is underestimated and the actual import is 480,000, then it takes 30,000 barrels away from domestic production.

The CHAIRMAN. Let's get that straight now. The Canadians are going to keep this unlimited exemption and put all the oil they want to in here then as far as your industry is concerned, you are not complaining about that as long as the Canadians put in here what they estimated they were going to ship to us or pump to us because if they stay within their estimates, then the Secretary of the Interior will have to take those Canadian shipments out of whatever Venezuela, Saudi Arabia, Nigeria, and these other producing nations are going to ship us, as I take it.

Mr. CALVERT. Right.

The CHAIRMAN. But if they exceed their estimates, it comes off of you.

Mr. CALVERT. Yes, sir.

The CHAIRMAN. You are not complaining about the Canadian exemption. You are saying if that is what they want to do, all right. That Canadian oil is much more readily available for the defense of the United States than the oil in Saudi Arabia or Venezuela. If that is how it is you will go along with them provided that they do just what their program says.

That is, that they take it out of Saudi Arabia and Venezuela and Nigeria and don't take it out of the American producers.

Mr. CALVERT. Don't tilt it against us.

The CHAIRMAN. That is right.

Well, thank you very much. I appreciate this. We are going to be back here, I will say at 2:30 this afternoon, Senator Hruska wants to appear today at 2:30.

This committee room is not big enough to accommodate all of those who want to be here to witness the hearings today and I realize it creates problems with regard to those who have a vital stake in legislation that is pending here. We will move this hearing to a larger room—the auditorium, G-308 in this building.

(Whereupon, at 1:20 p.m. the committee adjourned to reconvene at 2:30 p.m. of the same day.)

AFTERNOON SESSION

Senator CURTIS (presiding). The committee will come to order. The distinguished chairman of this committee, Senator Long, will be here very shortly. In order to save time, we will move along and accommodate all the witnesses, we will proceed according to his instructions.

Mr. Kenneth Rush.

Mr. Rush, will you identify yourself for the record, and also your colleagues who are here with you.

STATEMENT OF KENNETH RUSH, PRESIDENT, UNION CARBIDE CORP., ACCOMPANIED BY ROBERT A. ARMSTRONG, SENIOR VICE PRESIDENT, CELANESE CORP.; ROBERT H. CORNWALL, VICE PRESIDENT, NATIONAL DISTILLERS & CHEMICAL CORP.; AND EDWARD A. O'NEAL, CHAIRMAN OF THE BOARD, MONSANTO CO.

Mr. RUSH. Yes, Mr. Chairman. My name is Kenneth Rush. I am president of the Union Carbide Corp. Joining me here today are Robert A. Armstrong, senior vice president of Celanese Corp.; Robert H. Cornwall, vice president of National Distillers & Chemical Corp.; and Edward A. O'Neal, chairman of the board of Monsanto Co.

We also had with this morning David Dawson of E. I. du Pont de Nemours, and H. H. Emery, vice president of Texas Eastman Co., a subsidiary of Eastman Kodak. However, they had other engagements this afternoon that could not be broken and had to return.

In addition to the companies represented by these gentlemen, my testimony is submitted in behalf of the Dow Chemical Co., Olin Mathieson Chemical Corp., Publicker Industries, Inc., and Hercules, Inc. Hercules' concurrence in my testimony came so late that they are not listed in the statement as duplicated and submitted to the committee.

We have submitted a larger statement, a longer statement which I shall summarize now.

We appreciate and thank you for this opportunity to discuss the impact of oil import controls on the petrochemical industry and to urge that if any legislation is recommended by the committee, it be carefully drafted to recognize the essential need of the American petrochemical industry. It must have oil imports to compete at home and abroad with overseas chemical producers.

The industry's health, its growth rate, its employment, its ability to compete for markets all over the world, and its very large contribution to the balance of payments will be jeopardized unless it is allowed the same access to low-cost raw materials which its overseas competitors enjoy.

Let me briefly describe the petrochemical industry. Its basic products are formulated from components of oil and natural gas, and are the chief building blocks for hundreds of synthetic organic materials. These chemicals and plastics are largely unseen in everyday life because they are the raw materials of industry and defense. As such, they help satisfy human needs and military requirements in literally thousands of applications. They help make possible better food, clothing, packaging, medicines, faster and safer transportation, quicker communications, more reliable and more effective weapons, and a stronger defense.

The industry operates more than 2,500 plants and factories in the United States. It employs more than 329,000 men and women. This industry has plants and equipment valued in excess of $17 billion and will invest nearly $2 billion in new facilities this year.

It will produce and ship more than $18 billion worth of products this year.

More than $1.5 billion will be exported to markets all over the world, outside this country. These exports will result in a fovarable balance of trade for 1967 which is estimated to exceed $1.1 billion.

The petrochemical industry is the Nation's third largest manufacturing industry in terms of assets. Yet, despite its size its demand for petroleum raw materials is small in relation to the quantity of oil going into energy markets in the United States. Chemical requirements today amount to less than 5 percent of the total demand for petroleum hydrocarbons in this country.

The versatility of petroleum, the inventive success of research chemists, and the growth of the American economy have all combined to put petrochemicals in the first rank of America's growth industries. Its production and sales have been expanding almost 10 percent a year over the past decade.

This growth is the source of one of our major problems. The industry has been growing much faster than its traditional supplies of raw materials. It must have new sources of raw materials if it is to continue its expansion, but the oil import controls are a serious obstacle.

This need for imports of petroleum for chemical production was made clear in a survey conducted by the U.S. Department of Commerce. On July 14, 1967, Secretary of Commerce Trowbridge announced in the conclusions of the survey that:

> Higher feedstock import quotas would appear necessary for the petrochemical industry to maintain a favorable balance of payments and that inadeqnate quotas would reduce the balance of payments by a quarter of a billion dollars in 1970.
>
> That substantially higher imports would not cause a decline in the use of domestic feedstocks, and their use would increase even with higher import quotas.

In 1959 and the years immediately succeeding, the oil import program was of little direct concern to the petrochemical industry. The industry was only half its present size. For raw materials, we relied principally on liquefied petroleum gases, particularly ethane and propane which were abundantly available then as byproducts of natural gas because of the enormous growth in natural gas production. Their price was not related to the price of crude oil—thus the petrochemical industry's raw materials were not affected by oil import controls.

At the same time, our overseas competitors were not the serious factor they are today. Overseas petrochemical plants were small and less efficient. The United States then had nearly two-thirds of the world's productive capacity for the key petrochemicals. More than 34 percent of the world's exports of organic chemicals and plastics originated in the United States.

In the years since, the situation has changed drastically. World demand for petrochemicals and plastics has increased tremendously, and overseas producers have moved vigorously to meet these demands.

Their new plants are large, modern, and efficient, utilizing technologies as advanced as those employed here in the United States. America's share of world export markets has dropped from 34 percent to just over 20 percent.

Of critical importance, overseas producers have unrestricted access to low-cost petroleum supplies for their raw materials. As a result, they have a tight hold on their own domestic markets, and they are a potent threat to U.S. exports in third-country markets elsewhere in the world. If we cannot obtain access to competitively priced raw materials, these foreign producers will be a most serious threat in the American market.

This will not be the fault of the domestic producers of petrochemicals who have not been idle. We have new and efficient plants, skilled and dedicated employees, vast research programs, effective and active sales and marketing organizations. But we face a critical problem: the availability of raw materials at world market prices.

The rapid growth of natural gas production has slackened, but the raw material needs of the petrochemical industry are still rising. By 1965, the overall supply and demand were nearly in balance. Today the liquefied petroleum gas feedstocks are trending higher in price. As this trend continues, these traditional feedstocks will not be available to meet the growth of the industry at prices competitive with overseas producers.

But for U.S. producers, the avenues to competitively priced feedstocks are blocked by the oil import program, which effectively shuts foreign crude oil out of the American market. The import control program results in—and protects—a differential between the price of U.S. crude oil and the world market price.

For this reason the crude oil prices are generally $1.25 a barrel more in the United States than they are elsewhere in the world. This is 3 cents a gallon, or 60 percent higher. These differences are grave, are of grave consequence to the petrochemical industry which competes, and desires to compete, in world markets. A price differential of 60 percent in the case of raw materials is critical in petrochemical production where, in many cases, raw material costs account for more than 50 percent of the cost of the basic products.

The urgency of the problem faced by the petrochemical industry will, I believe, be evident if you picture for a moment the plight of the refining industry if the current oil program did not exclude foreign gasoline from the American market. The domestic refiners would be required to buy crude oil at a domestic price which is 3 cents a gallon higher than the world price, and then to sell their gasoline in a domestic market in competition with foreign gasoline produced from cheaper foreign crude oil. The consequences to the refining industry are clear—it would lose its market position.

The chemical industry today is being put into precisely this situation. It must acquire its raw material, the 5 percent of the oil and gas production that it needs, at prices which are beginning to reflect the higher price of domestic crude oil. At the same time, the chemical industry is competing in markets which are increasingly open to chemical and plastic products produced in other countries from the cheaper foreign crude oil.

If these low-cost raw materials continue to be denied the domestic petrochemical industry, we face potentially destructive competition in third country markets immediately and in domestic markets as tariffs come down over the next 5 years.

The oil import program must be revised to allow needed imports of foreign feedstocks for chemical production. We are convinced that this can be accomplished without detriment to those who produce, refine, and market the fuel and energy products of the petroleum industry.

Specific proposals to accomplish this objective have been submitted to the Department of the Interior, the Department of Commerce, the Office of Emergency Planning, and other interested Federal agencies.

The essential feature of the petrochemical industry proposal is a recognition of the distinction between the primary fuel and energy markets of the petroleum industry, which oil import quotas were designed to protect, and the needs of the chemical industry for competitively priced feedstocks for the production of chemicals and plastics.

The plan which the nine companies have proposed calls for no form of Government assistance. It provides for the gradual elimination of the current petrochemical import quotas and for a system of controlled importation of raw materials. We have also suggested stringent safeguards to prevent any part of such imported petroleum finding its way, uncontrolled, into the fuel or motor fuel markets.

Adoption of our proposal will not result in a reduction in the domestic production of domestic gas liquids, natural gas, or domestic crude oil. We have carefully designed our plan to take effect in stages over a 5-year period precisely to make sure that no such decline in production could occur.

Our proposal is now being reviewed and evaluated by the appropriate Federal agencies, and we will be glad to furnish the committee with any details it may desire.

Senator TALMADGE (now presiding). May I interrupt at that point? When do you expect the Government to make a decision on your application?

Mr. RUSH. Senator Talmadge, that is a question I wish I could answer. We would hope very soon because it takes about 3 years to build a petrochemical plant. We in our industry are constantly engaged in discussing this. With that assurance of what raw materials we can have, obviously we can work for the most economic locations for these plants.

Senator TALMADGE. You are asking for quota-free admission for these feedstocks which you use in the petrochemical industry. Is that only for the commodities you manufacture for reexport, or all commodities?

Mr. RUSH. It is for all commodities, Senator Talmadge. Our feeling is that with the reduction of tariffs that are taking effect, and the tariffs are not very large now, we will need to be competitive in raw material costs with overseas producers in order to safeguard our own markets here, and we, of course, need to be competitive in order to keep our markets overseas that we now have.

I should like to reemphasize, however, that it will not affect the fuel or energy field because nothing from our program would enter that field in an uncontrolled way.

Senator BENNETT. Mr. Chairman, may I have a question while we are on this subject? I have been looking at your statement on page 9, and I confess I am puzzled. I have assumed that part of the imported oil was needed by, or at least acceptable to the people who are going to use it to produce energy. And you call for the elimination of all import quotas. That means to me unlimited importation of oil.

Mr. RUSH. Senator Bennett, what we are asking for is a removal of import quotas on raw materials used by the petrochemical industry.

Senator BENNETT. But that isn't quite the way you say it. You call for the removal of all import quotas.

Mr. RUSH. I believe what we said is, it provides for the gradual elimination of the current petrochemical import quotas and for a system of controlled importation of raw materials.

Senator BENNETT. Elimination is elimination, whether it is gradual or immediate. You are calling for the elimination of all import quotas.

Mr. RUSH. For petrochemicals only.

Senator BENNETT. You are going to permit import quotas to be applied for petroleum products that are going into the energy-producing field.

Mr. RUSH. Yes.

Senator BENNETT. You are not concerned with that.

Mr. RUSH. No, we are not.

Senator BENNETT. You just want a little corner cut out to say, we wan to be able to import as much as we need for ourselves and then, as you say later, you suggest stringent safeguards to prevent any part of the imported petroleum finding its way into the fuel or motor fuel markets.

Mr. RUSH. That is correct.

Senator BENNETT. I thought that is what you meant, but when I read this first sentence, that isn't quite what it said.

Mr. RUSH. I am sorry. Our wording may be wrong, but our intent is what I have just stated.

Senator BENNETT. You don't care what we do with the rest of the people. In a sense, you want to make sure that you have access to quota-free sources of feedstocks for outside the country.

Mr. RUSH. That is correct. What we basically need is to separate from the oil import program raw materials for petrochemicals. It was never intended when the oil import program went into effect that petrochemicals would suffer in order to protect the energy market.

Senator BENNETT. Well, I've got the picture. I thought I had it before I asked the question but I wanted to make absolutely sure that the record didn't carry with it the implication that I thought that sentence gave it, and it will be very interesting to me to see the plan you propose by which you can safeguard material that comes in to you, from going into the energy markets.

Mr. RUSH. That is in our plan, Senator Bennett, and it is being worked on by the various agencies. There are various ways to do it.

One thing that we might have to do would be to crack the imported raw material completely down for only chemicals. Another way would be, of course, to sell to quota holders any petroleum products that might be available from our operations which they would use instead of importing from overseas. But there are various ways that that can be accomplished. We are not, however, asking that anything—we are saying that nothing should go into the energy market, the fuel market or gasoline, from this program.

Senator BENNETT. Assuming that the agencies are not able to make their reports before this committee has to face up to its problem, are you prepared to furnish the committe with a memorandum indicating the various ways by which you think this can be safeguarded?

Mr. RUSH. Yes, we are, Senator Bennett. We will be very glad to submit that.

Senator BENNETT. Mr. Chairman, I would like to ask that that be submitted as part of this record.

Senator TALMADGE. Without objection, it will be submitted and inserted.

Mr. RUSH. Thank you.

(The material above-referred to, follows:)

UNION CARBIDE CORP.,
Washington, D.C.

Senator RUSSELL B. LONG,
Chairman, Senate Finance Committee,
Washington, D.C.

DEAR MR. CHAIRMAN: During my appearance before the Committee yesterday, Senator Bennett asked me to submit information as to how our proposal for imports of petrochemical feedstocks would be safeguarded to prevent these imports from entering the domestic fuel and energy markets. This letter is intended to respond to his request, and I would appreciate it if it could be incorporated in the record of the hearings at the appropriate point.

The plan provides that the total weight of the chemical feedstocks imported shall equal that consumed in producing chemicals or chemical intermediates plus any by-products or co-product unfinished oils or finished products produced in the chemical manufacture and used in the following ways: consumed as fuel to make the chemicals, disposed of as fuel to a person holding an import license, disposed of as fuel but offset by consumption of equivalent domestic feedstocks, exported, or in the case of residual fuel oil, disposed of according to applicable regulations in the district where consumed.

Furthermore, our proposal specifically and narrowly defines "chemical manufacture" and "chemical intermediate" in order to prevent the petrochemical imports from uncontrolled entry into the fuel or energy markets. The intent of our proposal in all these respects is to apply the same kind of controls as would be applicable if the feedstocks were imported directly for energy uses.

These uses of imports would be controlled by means of end-use certificates, issued by the chemical manufacturer, and then turned into the Bureau of Customs officials at the time the petroleum feedstock is imported. Such certificates have been customarily used in the past in similar control programs. For instance, they were used extensively in the critical material allocation programs in World War II and the Korean War. The falsification or fraudulent use of such end-use certificates, of course, is a Federal offense under Section 1001 of Title 18 of the U.S. Code and punishable by a fine up to $10,000 and imprisonment for not more than five years.

In addition, the Secretary of the Interior, who administers the oil import program, would have authority to issue other regulations he found necessary to assure that petroleum imports for petrochemical production are not diverted to the fuel and energy markets.

Sincerely,

KENNETH RUSH,
President, Union Carbide Corp.

Mr. Rush. The American petrochemical producers must be able to acquire raw materials at competitive prices and this can only be accomplished by changes in the oil import program. Such action must be taken promptly if the competitive capability of the domestic chemical industry in markets here and abroad is to be maintained. A minimum of 3 years is required just to construct a petrochemical plant, and the industry must have the certainty that at the time a plant is completed it will be legally possible to obtain the necessary raw materials.

The first result will be a decrease in the rate of construction of new petrochemical plants in the United States.

Following this there will be an inevitable increase in foreign plant investment by U.S. chemical companies. This would reduce employment and production in the United Statse and have a depressing effect on the balance of payments.

Imports of petrochemicals will be substituted for the normal growth of the domestic industry. This, too, will have grave consequences for our domestic employment, our foreign trade balance and, indeed, for the security of the United States.

This then is the problem of the petrochemical industry. It must have access to imported petroleum for the production of chemicals if it is to retain its markets at home and abroad, if it is to retain its healthy growth rate, and if it is to prevent the export of its plants and jobs.

Therefore, we respectfuly urge the Committee to recognize the need of the petrochemical industry for imported oil, independent of import quotas for fuel and energy, and to take no action that would prevent the necessary revision of the present oil import program.

Senator Talmadge. Thank you, Mr. Rush.

Are you familiar with the study of the petrochemical feedstock imports and their effect on the U.S. balance of payments, volume I, prepared by the Stanford Research Institute, Menlo Park, Calif.?

Mr. Rush. I am, Senator Talmadge.

Senator Talmadge. I want to read a statement here from the introduction on page 1 thereof:

They—

Referring to the chemical industry—

are now seeking to increase their allocations from about seven percent of their requirements to as much as 100 percent of their feedstock needs. It should be noted, however, that petrochemical producers are not, in fact, importing feedstocks for use in the United States but are exchanging crude oil quotas for domestic feedstocks or primary petrochemicals.

Do you have any comment on that?

Mr. Rush. Yes, I have.

The purpose of the Department of the Interior's grant of the quotas to us was to permit us to equalize, to some degree, the inequity under which we have to use higher priced domestic raw materials and not have access to raw materials from overseas. Accordingly, we are given tickets under this program for a small percent of our raw material requirements. These tickets, of course, as is customary in the petroleum industry, can be exchanged for things that are most needed, and this is what we do with our oil tickets. We may resell them or exchange them with an oil company to secure naphtha from them or to secure other materials, but in essence it reduces our raw material costs to a small degree, still only about 7 percent, so that we are sill faced with higher cost of raw materials for the remainder of our needs.

However, what we really want and are advocating in the plan presented to Interior is a system whereby we can import the materials in the quantities we need. So that we can actually use those materials ourselves in our plants. Our plan specifically recommends that trading or exchanging, the practice prevailing now, be prohibited. I hope that is clear.

We are not advocating a perpetuation of the present artificial system of importing crude we do not use but, instead, exchange with refiners.

Senator TALMADGE. Let me see if I understand. You are now trading these quotas for the feedstocks that you need from domestic companies.

Mr. RUSH. We are doing that in part, yes.

Senator TALMADGE. On page 2 of this same report, under "Conclusions," the major conclusion of this study is that:

> 1. Adequate supplies of domestic petrochemical feedstocks will be available in the United States to 1975 at slowly increasing but internationally competitive prices.

I take it you deny that statement.

Mr. RUSH. If that is true, we will not need this program. If it isn't true, then we should have the program.

Senator TALMADGE (reading):

> 2. The net petrochemical export position of the United States will increase, irrespective of the level of feedstock imports from a current level of about $1.8 billion to a high of about $2.3 billion by 1975.

Do you have any comment on that?

Mr. RUSH. Senator Talmadge, if anyone can say what our exports will be in 1975, they will know much more than we do. However, it is certainly an economic fact that if our raw material costs are 50 percent higher than that of our overseas competitors, we cannot compete with them at the same price, and price will determine who gets the market.

Senator TALMADGE. And the third conclusion is as follows:

> Changes in petrochemical feedstock import quotas from 1967 to 1975 will not measurably affect the present positive trade balance for the U.S. petrochemical industry.

Mr. RUSH. This also is an assumption based upon a false premise. I don't believe that the oil industry or any industry, if its raw material costs are 50 percent higher than its competitors, can compete on equal terms with those competitors and keep their markets, and I don't see how any study could say that we can pay 50 percent higher raw material prices than our competitors overseas and compete with them in foreign markets or in this market, unless we have some other kind of protection.

Senator TALMADGE. What is the average cost of your raw materials, compared to the sales price of the finished product?

Mr. RUSH. About 50 percent.

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

Senator Bennett?

Senator BENNETT. You have asked my questions.

Senator TALMADGE. Senator Carlson?

Senator CARLSON. Mr. Rush, I have no questions, but I believe the Union Carbide Corp. sponsored a very fine program, nationally televised, "The 21st century"?

Mr. RUSH. Yes, sir.

Senator CARLSON. Well, as one who watches it every Sunday evening, I want to commend you for it. I think it is looking well into the future, and it stirs up a lot of interest and a lot of thought on behalf of all of us, and it is a very fine program, as far as I am concerned. I wanted you to know that.

Mr. RUSH. Thank you very much, sir.

Senator TALMADGE. Thank you, Mr. Rush, for your fine statement.

Mr. RUSH. Thank you, Mr. Chairman.

Senator TALMADGE. The next witness is the Honorable Santiago Polanco-Abreu, Resident Commissioner of Puerto Rico, and the members of staff will pass Mr. Polanco-Abreu's statement around, so you and the audience remain in your seats, and there will be less commotion.

Mr. Polanco-Abreu, we are delighted to have you with us.

STATEMENT OF HON. SANTIAGO POLANCO-ABREU, RESIDENT COMMISSIONER OF THE COMMONWEALTH OF PUERTO RICO, ACCOMPANIED BY RAFAEL DURAND, COMMONWEALTH GOVERNMENT OFFICIAL IN CHARGE OF PUERTO RICO'S OPERATION BOOTSTRAP PROGRAM; PAUL PORTER, OF THE LAW FIRM OF ARNOLD & PORTER

Mr. POLANCO-ABREU. Mr. Chairman and members of the committee, my name is Santiago Polanco-Abreu. I am the elected representative in Congress of the people of Puerto Rico. I have with me Mr. Rafael Durand, and Mr. Paul Porter, from the law firm of Arnold & Porter.

I appreciate the opportunity you have extended for me to appear before you today. As I have arranged through the committee staff, I will share the time allotted for my appearance with Mr. Rafael Durand, the Commonwealth government official in charge of Puerto Rico's Operation Bootstrap program.

Mr. Durand will outline Puerto Rico's position on the substantive issues which are the subject of these hearings. I would like to discuss one aspect of the oil import bill—S. 2332—which is of unique concern to Puerto Rico.

Among other things, S. 2332 would define as "imports" and proposes to limit the movement of certain petroleum products from Puerto Rico. From conversations I have had with some of the sponsors of this legislation—time has not yet permitted consultation with all of the sponsors—I gather that the authors of the bill inadvertently overlooked the incompatability of S. 2332 with the established political relationship between Puerto Rico and the United States.

Freedom of movement of people and goods has been the hallmark of United States-Puerto Rico relations since 1900. This free trade relationship was carried through and embodied in the Puerto Rico's status transition from territory to Commonwealth in 1952. The results of this trade relationship—in terms of benefits both to Puerto Rico and to the States—are discussed in Mr. Durand's statement.

Whatever disposition is made by this committee and the Senate on the matter of oil imports generally, we are confident that it is not the intention of the authors of S. 2332—nor will it be the decision of this committee—that the established concept of free trade between Puerto Rico and the States be impaired.

Thank you, Mr. Chairman.

And now, may I invite Mr. Durand to read his statement.

Senator TALMADGE. Thank you, Mr. Polanco-Abreu. You may proceed, Mr. Durand.

Mr. DURAND. Mr. Chairman, members of the Committee on Finance, I am Rafael Durand, Administrator of the Economic Development Administration of the Commonwealth of Puerto Rico. This is the Commonwealth agency entrusted with implementing Operation Bootstrap, Puerto Rico's effort at economic improvement through industrial development.

I appear today on behalf of the people of Puerto Rico—a Caribbean island where 2¾ million U.S. citizens have launched and are engaged in a peaceful revolution for economic growth.

Puerto Rico's economic progress rests on freedom of movement of goods between the U.S. mainland and Puerto Rico. Pending protectionist trade measures, particularly S. 2332 relating to petroleum products, could strike a devastating blow to our efforts to reduce unemployment in Puerto Rico to a tolerable level.

By 1975, Puerto Rico will need well over 200,000 additional employment opportunities if unemployment is to drop below 10 percent. Let me repeat that figure: By 1975, we must create 200,000 new jobs if our unemployment rate is to drop below 10 percent.

We have never sought, nor do we now seek, to have the Nation's petroleum policy molded especially for Puerto Rico. We are fully aware of other vital considerations the Nation must take into account in this regard.

But we do ask that the Nation's oil import policies remain flexible, while providing for the national security, to also allow Puerto Rico the essential conditions it must have for economic growth. Petrochemicals and the wide range of subsidiary products made from petroleum derivatives are the strongest—and, as of now, the only—hope we have of creating the jobs in the magnitude required by present and future generations of Puerto Ricans.

Certainly, Puerto Rico's employment needs cannot be met unless our infant petroleum and petrochemical industry is permitted to survive and grow. S. 2332 would, if adopted, preclude such survival and growth.

Puerto Rico is, as I have said, most immediately concerned with the effects that S. 2332 would have on our industrialization program.

But we are no less deeply concerned with the possible effects of this measure—and the other pending protectionist proposals—on the fundamental matter of our Nation's future course in international trade.

In short, we believe that the long-term economic and political interests of the United States would be gravely damaged by reverting to protectionist trade policies. To raise new barriers and reverse the trend toward more free trade would particularly shatter the hopes of millions of people in developing countries around the world. And, what should be of immediate and urgent concern to the members of this committee, it would destroy what could in a few years become markets for U.S. goods abroad.

I believe that the experience of the United States with Puerto Rico demonstrates the benefits accruing to both parties in a liberalized trade relationship.

The Commonwealth and the United States as a whole take pride in the achievements of Operation Bootstrap. Puerto Rico was formerly known as the Poorhouse of the Caribbean. The island has now developed to the point where its people can look to the future with hope, rather than with despair or discontent.

As I stated earlier, a fundamental determinant of our economic growth has been the freedom of movement of people, capital, and goods between the island and the mainland.

Because of this two-way street of trade, Puerto Rico's standard of living has risen significantly, and at the same time the continental United States has reaped major economic benefits from our growth.

Puerto Rico's purchases from the States in 1966 totaled more than $1.4 billion, or about 5 percent of all U.S. sales off the mainland. If Puerto Rico were ranked among the export customers of the United States, it would be classed as fifth in the world—only slightly less than the United Kingdom or West Germany. Our purchases from the mainland support an estimated 180,000 jobs in the States.

Yet if there had not been free movement of goods, capital, and people between our island and the mainland, the attainment of a better life for the people of Puerto Rico, and the expanding Puerto Rican market for mainland goods, would not have been possible.

I can give you a specific example of how Puerto Rico's economic growth stimulates the mainland economy through trade. The $1.4 billion in purchases last year by Puerto Rico from the States may conservatively be estimated as being responsible for some $4 billion of the U.S. gross national product. Given the existing relationship between U.S. petroleum consumption and gross national product, Puerto Rico's purchases from the mainland created a demand in the United States in 1966 for over 25 million barrels of petroleum products.

It is clear, then, that the policy of free trade between Puerto Rico and the States has worked for the mutual benefit of the Commonwealth and the continental United States. Drawing on this experience, liberalized trade policies should, we submit, be the guiding principle in the Nation's commerce with foreign countries.

And I reiterate our urgent request that this committee reject the measure, S. 2332, that would strike a fatal blow at Puerto Rico's strongest hope for a solid base for economic growth.

With your permission, I will submit for the record, prior to the close of these hearings, a detailed statement of the historical and prospective predicates for the Puerto Rican position as I have discussed it today.

Senator TALMADGE. Without objection, it will be inserted in the record at this point.

(The material above-referred to, follows:)

PUERTO RICO AND ITS ECONOMIC DEVELOPMENT—"OPERATION BOOTSTRAP"—THE ROLE OF THE PETROCHEMICAL INDUSTRY

Puerto Rico's future economic development for the near and long-range future hinges, to a decisive degree, upon the petroleum and petrochemical industry.

Puerto Rico's basic goal is the development on the island of an integrated chemical industry, providing the base for scores of thousands of employment opportunities.

I. PUERTO RICO'S ECONOMIC PROGRESS—AND PROBLEMS

A. A decade and a half of progress (1950–65)

Before reviewing the economic development of the past decade and a half, it is well to note that at mid-century (after 50 years of U.S. sovereignty over the island) "poverty, disease, hunger and insecurity were still the lot of the average Puerto Rican." It is against this reality that the progress made to date must be reviewed.

During the past 15 years our industrialization and tourism promotion programs for which the Economic Development Administration is responsible have been the primary factors underlying the island's effort to reduce unemployment. Population pressures and the paucity of natural resources dictated that these two areas would have to be the keystones of Puerto Rico's effort to raise its standard of living. What we have been able to accomplish to date has been effected by enlisting the technical and financial resources of private enterprise. The limited availability of both of these resources on the island made it necessary that we try to atract them from the Mainland. Economies of scale and the small local market meant that, for the most part, the manufacturer in Puerto Rico would have to channel his output into the Mainland market.

Our first stage of development can be said to have been completed in 1955 when net income originating from manufacturing equaled that generated in agriculture. Most of the new plants attracted during this stage fell into the category of light industry. notably wearing apparel. The next stage was attended by considerable diversification into such industries as metalworking and the production of electrical goods and light chemicals. The apparel industry continued to grow and achieved a degree of integration. Some heavy industries also located on the island in this period (1955–65)—these represented very large investments but did not contribute correspondingly to the opening up of employment opportunities. Nevertheless, so many new plants were established that by the end of 1965 employment in manufacturing exceeded employment in agriculture. This can be said to mark the end of our second stage of development and the entry of Puerto Rico into the category of a truly industrialized area.

Since 1956 manufacturing net income has exceeded that generated in agriculture and this "gap" has been widened in each succeeding year. We view this ever-widening gap with mixed emotions because, in addition to measuring industrial progress, it also reflects, unfortunately, severe limitations on the capacity for growth of agriculture. The human dimension of this ever-widening gap between manufacturing and agriculture is appalling—a steady decline in employment opportunities in agriculture which, in turn, requires an intensification of our efforts to industralize.

The gross product of the island rose from an estimated ¾ billion dollars in 1950 to over $2.7 billion in fiscal 1965, an increase of some 260%. Annual per capita net income rose from $279 in 1950 to $900 in fiscal 1965, an increase of 225%.

Physical indicators are probably more meaningful measures of economic changes than general economic indicators of growth. Some of the physical changes that have taken place on the island are impressive.

Motor vehicle registrations in Puerto Rico in 1950 were about 60,000; 15 years later the figure was approximately 319,000; a fivefold increase.

In 1950 installed electrical generating capacity in Puerto Rico totaled 140,560 KW; 15 years later the capacity was 743,920 KW.

There were 32,000 telephones in service in Puerto Rico in 1950; in 1965, the number was some 182,000.

Another relevant statistic refers to the island's external trade. In 1950, external trade amounted to less than $600 million; in fiscal 1965, two-way trade reached $2.5 billion. Most of this trade is with the U.S. Mainland. In 1966, shipments from the States amounted to $1.4 billion dollars, making Puerto Rico the Mainland's fifth largest customer—exceeded only by Canada, Japan, West Germany and the United Kingdom. We estimate that these shipments were responsible for some 180,000 jobs on the U.S. Mainland.

B. Achievement during fiscal 1966

During the past year Puerto Rico once again experienced an overall growth rate in excess of ten percent. Gross product rose by some $317 million and per capital net income rose to $950, a level exceeded in this hemisphere only by the United States and Canada.

During 1966 Puerto Rico can be said to have entered the third stage of its development. The year marked the coming on stream of significant new ventures in petrochemicals and formulation of plans by private firms for the creation in Puerto Rico of substantial industrial complexes.

Overall, 1966 was a year of substantial economic expansion: some 29,000 new jobs—one-third of them in the island's new and rapidly expanding industrial plants were created; 22,353 new dwelling units were constructed; 15,000 additional telephones were installed; 87.6 kilometers of new highways were constructed; 16.277 new sewer and 26,733 water customers were added to the island-wide networks; electricity was made available to 11.277 additional rural families.

Total external trade expanded by $325 million; exports to foreign countries rose by 50 percent. An additional 117,000 persons visited the island and visitor revenue rose to $140 million.

Accompanying these indicators of continued economic growth was an increase in the number of unemployed—the unemployment rate rose by well over a full percentage point. There was also an increase in the number of public welfare beneficiaries.

C. A look into the future (1967–73)

The employment outlook in Puerto Rico for the next five to six years calls for action. Even though net migration to the Mainland rose significantly last year—after five years of stagnation—the island's population increased by 2.2 percent. The formidable dimensions of the task before the development agencies is illuminated by consideration of the number of jobs which would have to be created to reduce unemployment to what might be termed "acceptable" levels by 1970. The Commonwealth's recent Overall Economic Development Program, prepared in response to the program requirements of the Economic Development Administration, U.S. Department of Commerce, reveals that if one assumes that the currently low Puerto Rican labor force participation rates will respond to an increasing availability of jobs, it is then forseeable that during the second half of the decade it would be necessary to create 343,000 new jobs; some 66,000 jobs annually or slightly over twice as many as have been created annually during the 1960's to date—a period of substantial employment expansion.

The report goes on to state that the computation tends to understate the additional job requirements because no account is taken of the effects that changes in the structure of the economy, higher wages, and improved productivity will have on the number of existing jobs.

Since October 1960 industrial wages in Puerto Rico have increased at an annual rate of 5.6 percent largely as a result of legislative and administrative pressures on the wage structure. The immediate outlook is for an accelerated rate of increase, as a result of the implementation of the 1966 amendments to the Fair Labor Standards Act which will increase manufacturing payrolls in Puerto Rico by some 14 percent within the next twelve months (as minimums are raised by 12 percent in April 1967 and an additional 16 percent one year later). The U.S. Secretary of Labor's recent decision to deny appealing Puerto Rican industries legislatively provided-for relief presages even greater job losses than had hitherto been anticipated

Other factors which will adversely affect the level of existing employment and the future rate of industrial growth include the expiration of tax exemption grants which, given the provisions of the U.S. Internal Revenue regulations, require firms to liquidate their operations on the island in order to maximize their benefits from the tax concessions granted by Puerto Rico. Over the next four years the tax grants of 216 concerns, currently employing some 19,000 persons, will expire. In the following three years, by 1973, an additional 218 firms, with 21,000 employees, will lose their tax-exempt status. Unless the current peculiarities in the U.S. tax regulations are satisfactorily resolved a large number of these enterprises will probably be forced to abandon the island leaving behind them a small army of unemployed.

Probably Puerto Rico's gravest social problem is the under-utilization of its human resources; a matter of the gravest concern given the extreme youth of its population and the resulting high number of dependents of each citizen who is actively employed.

A staff paper prepared for the U.S.-P.R. Commission on the Status of Puerto Rico makes the following relevant observations. "During the past 20 years, between 3 percent and 7 percent of the members of the U.S. labor force have been totally unemployed. These unemployment rates are higher than in most of the developed countries but far below those prevailing in Puerto Rico. Underemployment rises and falls along with unemployment, thereby compounding its effect on output."

". . . Since the 1920's, when Puerto Rico's land resources were sufficient to provide subsistence to those who could not be more productively employed elsewhere, the Island has never known even nominally full employment of its human resources. According to the conventional labor force statistics, unemployment in Puerto Rico has been roughly three times higher than in the United States, ranging between 11% and 16% of the labor force ever since 1948. The degree of under-utilization of human resources in Puerto Rico, or in any other undeveloped country, cannot be adequately measured, however, by the methods appropriate for advanced economies. In the more backward of the underdeveloped countries, the concept of 'looking for work', a key element in conventional labor force statistics, is practically meaningless . . . . [Rather] to measure the true extent of unemployment in an economy where it is chronically high, there must be a more stable concept of labor force from which to subtract the recorded figures of employment."

"The key assumption made in calculating the labor force base . . . is that, if work were available, Puerto Ricans in each specific age and sex group would be working or looking for work, in the same proportionate numbers as in counterpart age and sex groups in the United States. This is statistically equivalent to assuming that, except for differences in the age and sex structure of the population, the overall labor force participation rate in Puerto Rico would be the same as in the United States, *if jobs were available.* This assumption cannot be verified because nowhere in Puerto Rico have there been enough job openings to test it pragmatically. There is, however, substantial evidence in its support."

On the above premise, the author proceeds to calculate that in April 1960 Puerto Rico had a total numerical job deficiency of 243,000 (and in April 1965, despite a sizeable increase in jobs, the deficiency had nevertheless increased to 263,000). The conventionally calculated unemployment estimate for April 1960 was only 56,000. The 1960 calculation shows a job deficiency equal to 30 percent of the calculated labor force. "This approximate measure of true unemployment is eight times greater than the current rate of unemployment in the United States and considerably above the highest rate of unemployment ever recorded during the depths of the great depression of the 1930's. There is perhaps no area within the United States that has ever experienced a period of unemployment of comparable duration and severity." Nevertheless, even conventionally computed unemployment estimates how several labor market areas within Puerto Rico with unemployment rates in excess of 20 percent. This demonstrates why a major objective of the Commonwealth Government must continue to be industrial decentralization.

II. NEED FOR RESTRUCTURING THE ECONOMY OF PUERTO RICO

The essential effect of Puerto Rico's industrialization efforts over the past fifteen years has been to restructure Puerto Rico's economy—from an agricultural economy to a diversified economy. In fiscal 1950, 36.3% of Puerto Rico's jobs were in agriculture; 17.8% of Puerto Rico's agriculture. This is necessary to provide sufficient food production at home to reduce rapidly rising and costly import demand. This effort is necessary to boost exports of processed and unprocessed farm products, and thereby further contributing to absorption of surplus labor. This effort is, in sum, needed to raise employment and living standards in Puerto Rico's more impoverished areas.

But Puerto Rico's agriculture cannot be the mainstay of the island's economic growth, for several fundamental reasons:

Cultivable land is scarce.

Soil has been depleted.

Necessary capital investment funds simply do not flow into agriculture in sufficient amounts.

Prior to World War II, Puerto Rico's economic development was, in fact, directed primarily at exploitation of natural resources, with sugar, of course, as "King." In the late 1930's, most people—including technicians and policy makers—still believed that agriculture was the key to Puerto Rico's development. Even during the formative years of "Operation Bootstrap"—from 1950 to 1965—Commonwealth Government appropriations for agricultural development exceeded those for industrial development by about $13 million .

As a result of Puerto Rico's efforts in agriculture—and while much work remains to be done—the fact is that the island's agricultural resources have to a large degree been exhausted as far as major employment opportunities are concerned. For example, Puerto Rico has more of its land in farms, more of its farmland in cropland, more agricultural net income generated per acre either in farmland and cropland, and more employment per acre of farmland than does the United States. Yet while mechanization of Puerto Rico's agriculture has caused rising productivity within limited farming areas, it has also caused a decline in the employment in agriculture—from 214,000 in 1950 to 124,000 in 1960, and down to 110,000 in 1968. It is expected that the decline in agricultural employment in Puerto Rico will continue, and that the total number of workers employed will not exceed 100,000 by 1975. Income per farm worker should then be substantially higher, but for an island-wide labor force that will then be in the neighborhood of one million people, agriculture can provide only a small and relatively inflexible part of the total employment opportunities required.

Other natural resources of the island are even more limited than farmland. Much of the interior is wooded, but it is mostly second-growth timber, having been cut over for fuel. So far, no substantial forestry operation has proven economically feasible. Similarly, the waters around Puerto Rico have not proved suitable for large-scale commercial fishing. There is a relative abundance of clays, sands and stones, but they can serve as a base for relatively few export products. And their use will probably expand at about the same pace as the economy as a whole. Metallic minerals exist, but no deposits are known to be commercially exploitable. An exception is found in two deposits of copper around which efforts now center to develop a copper mining and fabricating complex to provide employment for, hopefully, up to 4,000 people.

Of Puerto Rico's known physical resources, only its combination of fine weather and beaches seems capable of supporting expansion of a large primary industry. External tourism has been one of the most rapidly advancing sectors of the economy, and its seems likely that its growth will continue. But among the sectors of the economy on which economic growth is so dependent, tourism still accounts for *only 6.5 percent of total Commonwealth gross product*, only about one-eighth as much as manufacturing. Employment in Puerto Rico attributable to tourism is less than 10,000 jobs.

The Commonwealth of Puerto Rico is by no means so poorly endowed that an adequate level of living cannot be achieved for its people. Its resource limitation implies, however, that Puerto Rico must bring from abroad—mostly from the United States—the full range of materials and products it needs. To pay for these, it must be able to produce and ship out a necessarily much narrower range of products but in comparatively larger volume. Its shipments of agricultural and industrial products, and its income from non-resident tourists, must be of sufficient value to pay for the thousands of products that cannot be efficiently produced locally but which are needed for an adequate level of living. Thus, the development strategy for the Commonwealth of Puerto Rico *must* be specialization in the crops, products and services in which nature or man-made conditions give production in Puerto Rico a cost advantage in its own or other penetrable markets.

The significant growth of the Puerto Rican economy during the last 15 years is, of course, attributable almost entirely to the fourfold increase in the value of merchandise shipments out of Puerto Rico, mainly to the continental United States. The investment needed to produce this export increase also came mostly from the United States. Thus, a penetrable "outside" market, plus an inflow of investment funds, had enabled and has largely financed a fourfold expansion of total production—destined for use or consumption outside Puerto Rico. This, in turn, has financed an approximately equal expansion of merchandise shipments into Puerto Rico originating in the Mainland, and results in more than a tripling of the economy as a whole.

The factories which have to date been responsible for Puerto Rico's economic development are not a cross-section of manufacturing in the United States. They are concentrated in industries in which production and distribution from Puerto Rico can be at a lower cost than in competitive areas in the United States. Their characteristic difference is that they are concentrated in the production of nondurable goods, especially apparel and foods, where comparatively low wages are paid even in the United States. Except for petroleum and stone, clay and glass products, every industry group in Puerto Rico with a greater concentration of employment than in the United States is a relatively low wage industry in the United States as well as in Puerto Rico. This partly explains the vulnerability of most Puerto Rican manufacturing industries to the wage increases that are necessary to provide an adequate standard of living. At the same time, many industries that are of great importance in the United States manufacturing scheme are entirely absent from Puerto Rico. Among the durables, there are many absentees, including all smelting and refining of metals. Lack of these basic metal industries largely accounts for other "absentees" from Puerto Rico's industrial base, such as ordnance, autos, aircraft and many other heavy machinery and fabricating industries.

The heavy and more highly technical industries which abound in the States typically pay higher than average wages. They require more fixed capital per worker, and thus may be considered more permanent than the light industries in which Puerto Rican employment has been concentrated. Throughout the world, metal-based heavy industry is concentrated where ores and usually coking coal are also concentrated. Petroleum, however, can be shipped economically over greater distances. Petroleum refining and related chemical industries are, except for a few industries based on locally available raw material or scrap materials, the only heavy, capital-intensive industries which are demonstrably feasible in Puerto Rico.

The Commonwealth of Puerto Rico now has a higher concentration of employment than the continental United States in only two basic industries: oil refining, based on imported petroleum, and cement manufacturing, based on local limestone. The cement industry has limited possibilities for forward integration and a limited export potential. Petroleum and petrochemicals provide Puerto Rico's main hope for the development of a heavy industry base which can be integrated forward through fibers and plastics to support the existing light industry concentrations in apparel and plastics fabricating.

III. PETROLEUM REFINING AND PETROCHEMICALS; PROGRESS AND PROBLEMS

A. Initial promotion of petroleum refining and petrochemical facilitics (1950–55)

At the time of the establishment of the Economic Development Administration Puerto Rico had neither petroleum refining capacity nor facilities for the production of synthetic organic chemicals.

Demand in Puerto Rico for petroleum products at that time amounted to approximately 14,400 b/d broken down as follows:

Product:	*Quantity (b/d)*
Gasoline	5,300
Kerosene	1,700
Distillate	800
Residual	6,400
Other	200

It is relevant to note that the 1950 makeup of product demand in Puerto Rico differed markedly from that on the U.S. Mainland. In the former case demand for heavy products amounted to 46 percent of the total while in the latter case the comparable percentage was 25 percent.

Satisfaction by source of local demand for petroleum products in 1950 was governed by the import tax structure of the U.S. Internal Revenue Code: heavy materials were imported into Puerto Rico from foreign Caribbean sources; light products were shipped into Puerto Rico from the U.S. Mainland.

An early and prime objective of the Commonwealth's development effort was the promotion of petroleum refining capacity in Puerto Rico. The fruits of this effort were establishment of the Caribbean Refining Company and of the Commonwealth Oil Refining Company. The plant of the former company came "on stream" in May 1955; that of the latter in December 1955.

The early promotional efforts of the Commonwealth Government in this area are relevant to present purposes for two reasons.

The first of these reasons is derivative from the composition of petroleum product demand (noted above) as it existed in Puerto Rico in 1950. Should this demand have been viewed in isolation (which it was not) it would probably have suggested promotion of a "topping" plant involving an investment of, say, $1,500,000. Instead, however, the basic concept was that a common Puerto Rico-U.S. Mainland market (free movement of goods, capital and persons) which would warrant investment in refining capacity to produce a full range of the major refinery products: production of any product in excess of local demand would be shipped to the U.S. Mainland.

The second of the reasons concerning this early and prime promotional effort of the Commonwealth Government which is relevant to present purposes relates to the importance which government attached to this promotional activity. The best measure of a sense of urgency and importance in this context is a willingness to commit resources to the purpose at hand; in this case scarce governmental financial resources.

In the matter of such a commitment outside expert advice, contracted for by the Commonwealth Government recommended caution, delay and, in effect, inaction. Despite this the Commonwealth Government made the largest single financial commitment it has even made to an industrial facility to bring into being the first petroleum refinery in Puerto Rico (the governmental line of credit established was 50 percent of the estimated cost—$12 million—of building the refinery of the Caribbean Refining Company).

The interest of government in local production of synthetic organic chemicals dates from this early period of the Economic Development Administration and is also attested to by the fact of the willingness on the part of government to commit scarce resources to such an end. Specifically, the Government Development Bank and the Puerto Rico Industrial Development Company subscribed to bonds in an amount of approximately $5 million which made possible the construction of a synthetic ammonia plant (Gonzáles Chemical) at Guánica, P.R., with an initially estimated total plant cost of slightly in excess of $12 million. As a consequence of production and marketing difficulties which need not be detailed here these government investments in Gonzáles Chemical subsequently had to be written off as a total loss. However, the plant continues to be operated under different management (1960) primarily as a consequence of government intervention directed at keeping the plant in production.

B. Great expectation and crises (1956–60)

The beginning of the second half of the decade of the 1950's was one of great expectations in government circles in the matters of growth both of petroleum refining and petrochemicals production (for a concrete expression of these expectations see the annexed paper (1957) titled: "Puerto Rico's Industrial Future"). Both refineries were "on stream"; the fertilizer plant of Gonzáles Chemical was under construction; Commonwealth Oil was engaged in the doubling of its facilities based primarily upon a long-term (20 years) supply contract with the Union Carbide and Carbon Corporation.

A series of events demolished these expectations. In chronological order these events were as follows:

First, Commonwealth Oil experienced severe start-up difficulties (1956–57) with consequent heavy financial losses.

Second, Gonzáles Chemical experienced severe start-up difficulties (1957–58) with consequent heavy financial losses.

Third, the U.S. Government instituted mandatory oil import controls (1959).

Fourth, Union Carbide's investment at Peñuelas, P.R., was jeopardized because of the fact that Commonwealth Oil was able to supply only a fraction of the feedstock required by Carbide (1959).

Government's responses to these several developments were as follows:

First, the Government Development Bank and the Puerto Rico Industrial Development Company extended three lines of credit aggregating $8¼ million in an effort to prevent the threatened insolvency of the Commonwealth Oil Refining Company.

Second, the Government Development Bank and the Puerto Rico Industrial Development Company waived their rights as bondholders in Gonzáles Chemical so that emergency financing could be obtained to keep the plant in operation.

Third, in the matter of mandatory oil import controls the Commonwealth Government sought recognition of the fact that, both for reasons of geography and a lack of indigenous natural resources, Puerto Rico should be established as a wholly separate importing district.

In summary, the second half of the 1950's which began as a period of great expectations in fact turned out to be a "salvage operation" by government so far as petroleum refining and petrochemicals production were concerned.

C. Laying a foundation for growth (1961–65)

During the first half of 1961 three things became apparent.

First, Commonwealth Oil's financial solvency was assured.

Second, continued operation (though only marginally attractive financially) of the fertilizer plant (now known as Caribe Nitrogen under W. R. Grace management) at Guánica, P.R., was assured.

Third, with the active cooperation of the Interior Department's Oil Import Administration, a "permanent" solution to Carbide's feedstock problem was in sight: creation of a foreign trade sub-zone which would enable Carbide to execute the necessary long-term supply contracts for importation of naphtha from the foreign Caribbean area.

With these problems resolved and/or in process of resolution the Commonwealth Government (second quarter of 1961) began to work actively in an effort to realize, at least partially, the great expectations of five years earlier. This effort became known, colloquially, within the Commonwealth Government as the "third refinery project." That is, Puerto Rico's economic growth could be greatly stimulated if the ban on entry of new refiners into Puerto Rico could be eliminated.

Specifically, the effort, which lasted some 2½ years, was concentrated on identifying someone prepared to invest in an unconventional refinery—one which would maximize the output of basic petrochemical streams. Discussions were held with representatives of many companies, oil and chemical, culminating in early 1964 with the formal endorsement by the Commonwealth Government of the project of the Phillips Petroleum Company.

Meanwhile, numerous discussions were taking place between government representatives and representatives of the two existing local refining companies looking toward development of plans by them for production of petrochemical streams. The position (1964) of Gulf Oil was that the firm had no plans for production of petrochemicals in Puerto Rico. The position at the same time of the Commonwealth Oil Refining Company was that it was going to enter the petrochemicals field. This decision was taken in the absence of a commitment by the Commonwealth Government to endorse any oil import quota request which the company might see fit to file.

To summarize, the foundation for growth of an integrated petrochemical industry was "triggered" by the decision in 1961 of the Commonwealth Government to promote the "third refinery project" and reinforced by the decision of Commonwealth Oil to commit substantial sums for chemical production.

IV. DEVELOPMENT OF AN INTEGRATED CHEMICAL INDUSTRY IN PUERTO RICO (1966–1972/73)

The basic objective of the Commonwealth Government in matters of petroleum refining and production of basic petrochemicals during the next 5–6 years is development in Puerto Rico of an integrated chemical industry. What precise content can be given to this highly generalized objective?

First, it means the strengthening of our weak industrial base for the purpose of overcoming what now appears to be an intractable unemployment problem.

Second, it means maximizing the integration potential of existing and prospective producers of basic petrochemical streams. We visualise the desirability of an exchange of streams as among the existing and proposed petroleum refining and petrochemical plants in Puerto Rico. Such interchanges as we visualize pose difficult but, we hope, not insoluble problems of effecting the necessary contractual agreements.

Third, it means maximizing the further fabrication on the island of basic petrochemical streams.

Fourth, achievement of the objective stated immediately above will in turn require promotion of inorganic as well as organic chemical operations. Specifically, our first priority in this area is promotion of a substantial chlorine-caustic soda industry.

Fifth, achievement of an integrated chemical industry in Puerto Rico during the next 5–6 years will require an increase in imported feedstocks. The basic requirements are now embodied in applications pending before the Department of the Interior. The dimensions of this increase can and, we hope, will be reduced to the extent that integration among the producers of basic petrochemicals in Puerto Rico can be maximized.

Senator TALMADGE. Any questions, Senator Bennett?

Senator BENNETT. Yes. I am a little puzzled because a representative of Puerto Rico came into my office just before—in fact, he delayed my coming to the committee—to insist that if we pass this bill, we destroy the basic enabling act under which Puerto Rico was made a Commonwealth. Is that your position?

Mr. POLANCO-ABREU. Senator Bennett, as far as I am concerned, it is very clear that this bill poses a great threat to the actual relationship, poltical relationship, between Puerto Rico and the United States.

Senator BENNETT. But would you answer my question? It is a simple and direct question.

Mr. POLANCO-ABREU. Yes.

Senator BENNETT. It can be answered, yes, or no. Is it yes, or no? Does the passage of this bill breach the basic enabling legislation under which Puerto Rico became a Commonwealth?

Mr. POLANCO-ABREU. Yes.

Senator BENNETT. Now, will you tell me how it breaches it?

Mr. POLANCO-ABREU. It will limit free trade between Puerto Rico and the United States in the definition of imports, and this is one of the basic pillars of our association with the United States.

Senator BENNETT. We now have a system of oil quotas. Is Puerto Rico bound by that system?

Mr. POLANCO-ABREU. That is from the economic point of view, and I prefer that Mr. Durand answer the question.

Mr. DURAND. Yes, sir, it is bound.

Senator BENNETT. It is bound?

Mr. DURAND. Yes, sir.

Senator BENNETT. So this bill, the effect of which will be to increase the oil quotas, how does that breach the basic enabling legislation? I can't see that it changes the free trade relationship between your country and ours. They are both the same countries, but between the Island of Puerto Rico and the rest of the States of the Union. Don't you still have the right to export products made from oil in Puerto Rico to the United States on a free trade basis?

Mr. POLANCO-ABREU. Senator, I think that it is a matter of language. The language as it appears in the bill clearly establishes a definition as imports, and it is a limitation to free trade between Puerto Rico and the United States. I am not referring, sir, to the substantive point of the bill. I am referring to the language and the political implications of the language insofar as our political relations with the United States is concerned.

Senator BENNETT. The language in the bill affects the process of importing oil, and I woud like to see specifically the language in the bill which you think will change our political relationship?

Mr. POLANCO-ABREU. The bill defines as "imports" and limits the movement of goods from Puerto Rico to the United States.

Senator BENNETT. Specifically?

Mr. POLANCO-ABREU. Specifically. And I think that free trade between Puerto Rico and the United States has been one of the pillars of the association, Senator.

Senator BENNETT. Isn't Puerto Rico inside the tariff walls of the United States?

Mr. POLANCO-ABREU. It is.

Senator BENNETT. Does the bill change in any way the right of Puerto Rico as a Commonwealth to change the tariff pattern that exists with respect to the importation of any product, including oil, from outside either Puerto Rico or the mainland?

Mr. POLANCO-ABREU. May I refer this question to Mr. Porter?

Mr. PORTER. Senator Bennett, I think that what is involved here is a question of the Compact of 1952, with the associated Commonwealth of Puerto Rico, which was a unique relationship, as you well know.

Senator BENNETT. That is right.

Mr. PORTER. Between the United States and the Commonwealth of Puerto Rico. Now, to specify that Puerto Rico within the ambit of our general trade and tariff policies, and having obtained a quota under the Mandatory Oil Act, to specify that this is a limitation and specifically designating the Commonwealth of Puerto Rico as to its imports, we think, does impinge upon the status relationship.

Therefore, I would like to file a brief memorandum for the record, making more explicit what our views about the basic principle and the legal issue that the distinguished delegate here has referred to.

Senator TALMADGE. Without objection, the memorandum will be inserted at this point in the record.

Mr. POPTER. Thank you, Senator Talmadge. We would like the opportunity to do that.

(The material referred to follows:)

SUPPLEMENTARY STATEMENT SUBMITTED BY THE HONORABLE SANTIAGO POLANCO-ABREU, RESIDENT COMMISSIONER OF PUERTO RICO

S. 2332 AND COMMONWEALTH STATUS

1. S. 2332 proposes, *inter alia*, to add a new section (h)(2) to the national security provision of the Trade Expansion Act of 1962 (19 U.S.C.A. 1862) which would define as "imports" the shipment of petroleum products from Puerto Rico to the continental United States. These "imports" from Puerto Rico would, under S. 2332 as written, be treated the same as imports into the United States from foreign countries.

The proposed limitation on commerce between Puerto Rico and the continental United States would represent the first time in more than two-thirds of a century that Congress has attempted to restrict in any way the free trade relationship between Puerto Rico and the States. This free trade relationship was first embodied in the Puerto Rico Organic Act of 1900 through which a civil government was established for Puerto Rico after its cession to the United States by Spain. (31 Stat. 77 (1900), 48 U.S.C. 738) The Compact of 1952, which created the Commonwealth of Puerto Rico specifically re-enacted those provisions relating to the free trade relationship. (64 Stat. 319 (1950), 48 U.S.C. 731b)

2. The 1950 enabling legislation which led to the Compact of 1952 specifically recognized the principle of Puerto Rico's "government by consent" arranged "in the nature of a compact." (*Ibid.*) Subsequent to the Compact, Congress has respected and preserved the bilateral relationship by providing in each case for Puerto Rican consent to the application of federal statutes which would not otherwise extend to Puerto Rico by virtue of the compact. (*E.g.*, Narcotic Control Act of 1956, 70 Stat. 567, 572 (1956), 26 U.S.C. 4774; Excise Tax Technical Changes Act of 1958, 72 Stat. 1375–76 (1958), 26 U.S.C. 5414(a)(1)). As stated at pages 12-13 of the 1966 Report of the United States-Puerto Rico Commission on the Status of Puerto Rico:

"A solemn undertaking (the compact) of such profound character between the federal government and a community of the United Seates citizens is incompatible with the concept of unilateral revocation. It is inconceivable that either the United States or Puerto Rico would, by an act of unilateral revocation, undermine the very foundation of their common progress: the fundamental political and economic relationships which were established in the basis of mutuality."

3. Since the establishment of the Mandatory Oil Import Program in 1959, the Government of the Commonwealth of Puerto Rico has taken steps to insure that the island's petroleum and petrochemical development would not, by virtue of Puerto Rico's free trade relationship with the States, be used as a vehicle for frustrating or evading national policy relating to the level of oil imports into the mainland. Thus, in the case of oil import quota applications endorsed by the Commonwealth Government subsequent to 1959, the Commonwealth Government, before approving a project, has itself arranged that each applicant limit its petroleum product shipment to the States. It has been, and remains, the policy of the Commonwealth Government that new oil import quotas granted for refineries in Puerto Rico should be granted only on the condition of fulfillment by the applicant of its commitments to the Commonwealth Government—including the commitments as to product shipment to the mainland.

Senator BENNETT. I just have one more question to satisfy my own curiosity. Over the years, the overall oil import quotas have been changed. They have been raised and they have been lowered. Has Puerto Rico had a specific segment of those quotas which have been raised and lowered in the same proportion, or different proportions, as the quotas for the entire United States have been raised or lowered?

Mr. PORTER. I would like for Mr. Durand to comment on that. I think the answer is probably "Yes."

Mr. POLANCO-ABREU. Yes.

Senator BENNETT. And you think the language of this bill would change that situation?

Mr. PORTER. Yes; insofar, Senator Bennett, as it singles out and specifies the Commonwealth of Puerto Rico with respect to the free movement of imports. It is a matter of language and definition.

Senator BENNETT. I would be very happy to see your brief on the subject, because I don't think it was the intention of the authors of the bill——

Mr. PORTER. I am sure it wasn't.

Senator BENNETT (continuing). To create any problem.

Mr. PORTER. I am sure it wasn't.

Senator BENNETT. But the question has been raised.

Mr. PORTER. Senator, I think there is a prohibition there, if a petrochemical in Utah or in Georgia had a certain quota, and they were singled out in this bill as to the marketing of the ultimate product, and that is where we believe the impingement on status comes.

Senator BENNETT. I have no more questions.

Mr. POLANCO-ABREU. Senator Bennett, I appreciate your comment that it was not the intent of the authors of the bill to hurt the relationship, so we will be pleased to submit a legal memo in regard to this specific question, and I very much appreciate your time, gentlemen.

Thank you very much.

Senator TALMADGE. Thank you very much for coming.

Mr. PORTER. Thank you, Mr. Chairman.

Senator TALMADGE. The next witness is Mr. Albert J. Klingel, Jr., executive director of the Savannah Port Authority. It gives me pleasure to welcome my friend and constituent before the committee.

You may proceed as you see fit, Mr. Klingel.

STATEMENT OF ALBERT J. KLINGEL, JR., EXECUTIVE DIRECTOR OF THE SAVANNAH PORT AUTHORITY, SAVANNAH, GA.; ACCOMPANIED BY ROBERT E. VAN GUENS OF THE GEORGIA INSTITUTE OF TECHNOLOGY

Mr. KLINGEL. Thank you, Mr. Chairman and members of the Senate Finance Committee. My name is Albert J. Klingel, Jr. I am executive director of the Savannah Port Authority, Savannah, Ga. Accompanying me is Mr. Robert E. Van Guens of the Georgia Institute of Technology which performs research work under contract to our authority.

We are opposed to this legislation because it would perpetuate a condition which has straitjacketed the economic development of the Atlantic seaboard. Import controls have stacked the deck against the development of a great industry in its largest market.

Now, and in the past, the east coast, or district I, has been the natural recipient of the bulk of oil imports. The considerable development of refining capacities in the Northeast is based almost entirely upon imported supplies. This is to be expected because this market for petroleum products is a region of negligible crude production compared with its enormous consumption. This region further is not in a position to receive overland imports from Mexico and Canada.

Let's look at how the import control program affects a refiner in the East:

First, he faces restrictions to adequate supplies of imported oil, normally his primary and most economical feedstock.

Second, the import quota upon which his competitive survival depends may at any time be adjusted to his disadvantage by changes in allotments or regulations over which he has no control.

Third, his inland competitors are also given access to available quota allocations which they do not normally consume themselves, but which they use to extract profitable premiums from exchanges with the coastal refiner. Eastern refiners are paying approximately $1.25 per barrel for these quota allocations, and are, in effect, subsidizing their inland competitors in an amount exceeding $135 million per year.

Fourth, inland refiners are given free access to overland crude from Mexico and Canada which is deducted from the import supplies necessary for the successful operation of the industry in the East.

Under these circumstances, it is no wonder that no new major refining capacity has been installed in district I since the import control program was imposed.

The disparity between consumption and production trends in the East is startling. Between 1959, when the control began, and 1965, consumption of major petroleum products in district I increased by nearly 227 million barrels per year. This increase was 53 percent of the total increase in petroleum consumption in the United States.

Yet, during the same period operating refining capacity in the east coast region actually declined by 34 million barrels per year. Under a free market economy and especially in a market oriented growth industry, it would be incredible for this magnitude of increase in demand to be accompanied by an actual loss of production. Obviously, what is happening is that refiners from more distant districts are displacing eastern refiners in eastern markets. For example, although the increase in consumption in the Southwest oil-producing area was only 6 percent of the total U.S. increase, the area has gained 65 percent of the new operating refinery capacity installed in the United States since the control system went into effect. These statistics are documented in an addendum to this testimony.

We think it is high time that someone speak up to wake up the eastern seaboard to this situation. Injury is being worked not only upon the Northeast where a highly important industry is being stifled in its home market, where refineries are closing, and jobs are being lost, and where the development of the entire region's economy is impeded by artificially high energy costs.

It is also working to the detriment of the Southeast which is completely lacking in refining capacity despite the fact that it is itself a large and growing petroleum consumer and very large and rapidly growing market for petrochemical products. Savannah, for example, is centrally located on the South Atlantic seaboard an equal distance from Baltimore-New York refinery concentration and the Texas-Louisiana complex. It is the preeminent port of the South Atlantic region. If free imports of oil had been permitted to continue, Savannah almost certainly by now would have a major petroleum and petrochemical complex serving its natural market territory in the Southeastern States.

We know this from negotiations we have conducted with major U.S. oil and chemical companies.

When major oil and chemical companies, contriving to escape the yoke of import controls, fall all over themselves to locate refining and petrochemical plants at insular points which are distant both from markets and raw material sources, it only goes to show how unbelievingly twisted and uneconomic the situation has become. This was pointed out forcefully by many, including ourselves, who testified at the Puerto Rico and Virgin Islands hearings before the Oil Import Administration. And now we hear that remote Guam has entered the picture.

Clearly, the import control program is creating an artificial geographic distribution of oil refining and petrochemical capacities, a distribution now shaped by the workings of natural economic forces inherent in a free enterprise system but distorted by artificial contrivances and manipulations which are characteristic of a managed economy.

Gilbert Burck, a senior editor of Fortune magazine, writing in the April 1965, issue of his publication, said:

> The chief reason the industry is in this predicament is that the production and pricing of U.S. crude have been walled off from free market forces by a system of government controls whose self-defeating complexity is matched not even in the U.S.S.R., and whose affection for special and parochial interests as distinguished from the national interest is matched not even in the myths of the robber barons. The rigging of crude production by the oil-producing States flourishes in the cause of conservation, competition, and national security, but it has turned out to be an elaborately organized system of government-guided waste that escalates costs and has been not too inaccurately described as a menace to national security.

Mr. Burck goes on to say:

> The price of the average barrel of crude produced in the United States according to a Commission appointed by President Kennedy, is about $1 higher than it would be if subjected to genuine competition, and is thus costing the Nation at least $3.5 billion a year more than it might, or nearly $20 for every American man, woman, and child.

We have attached a copy of this Fortune article to this testimony for insertion in the record.

Senator BENNETT. Without objection, it will be inserted in the record at the completion of your statement.

Mr. KLINGEL. Thank you, Senator.

Proponents of the import control system argue that protection is necessary to provide the incentive for exploration and discovery of new sources of supply to assure petroleum self-sufficiency in the event of war. If we fully accepted this premise, which we do not, could it not better be achieved by different means? Tax incentives, even direct subsidies would be preferable to the severe and inequitous economic dislocations fostered by the present system.

Should we not also question the military prudence of the concentration of 35 percent of all U.S. petroleum refining capacity in two States—Texas and Louisiana, with the greater part of it in two metropolitan areas—Houston and Baton Rouge?

When we consider the concentration of total U.S. production of key petrochemical products in these two target areas the picture becomes downright alarming: 71 percent of all U.S. ethylene, 88 percent of our h.d. polyethylene, 55 percent of our polypropylene, 54 percent of our sytrene, 60 percent of our vinyl chloride, and 68 percent of our paraxylene. Two well-placed hydrogen bombs could reap far more havoc than submarine harassment of tanker supply lines to a strategically dispersed industry, which could be supplied overland in the event of war.

If the objective of the import control program was the protection of the national security, we feel that the concentration of key industry it has fostered has achieved the opposite result. We believe that it is time to end the charade that masks her protectionism under a cloak of national security. We think it is time to restore a semblance of economic commonsense to this important industry. And we think it is time to end the economic colonialism to which my region and the entire eastern seaboard have fallen victim.

The oil import situation seems to have become more of a political question than an economic one, and that is why it continues to elude commonsense. Commonsense, economic efficiency, and the long-term national interest might best be served by returning to a free import system for crude and semifinished oils.

For the time being, however, a more attainable solution appears to be a reasonable compromise that would liberalize the present import system to permit our controlled oil economy to perform more like a free oil economy, and which would remedy the worst features of the present system and give relief to those of us who are suffering injury under it. Such a compromise could retain a reasonable degree of protectionism for the domestic oil industry.

A number of constructive proposals, and several practical measures, have been taken in this direction. It is these proposals and measures which Senate bill 2332 and a plethora of similar bills in the House are designed to block. For this reason, we oppose this legislation.

We support measures taken by the Department of the Interior which have freed imports of residual fuel oil and freed imports of crude oil for the production of low-sulphur content residual fuel oil.

We support measures which have allocated a small oil quota to the petrochemical industry. We strongly favor the proposals advanced by Union Carbide and eight other major chemical companies to free imports of crude oil and naphtha for petrochemical processing.

This measure alone could permit the South Atlantic area to gain its rightful share of petrochemical industry. We support proposals to utilize free trade zones for unrestricted importation of crude oil for processing and reexport. We cannot conceive that any of these measures would seriously disrupt our domestic oil industry.

A more comprehensive proposal was put forward by ourselves at hearings held by the Department of the Interior on May 22. We suggested simply that in setting quota applications, district I be divorced from districts II, III, and IV, and granted its fair share of import allotments according to the balance of supply and demand within district I itself. In essence, we are only proposing that district I, which like district V, is a petroleum deficit region, be accorded the same treatment as district V, for the same reasons.

The distinction between oil-producing regions and non-oil-producing regions already has been recognized explicitly by the Oil Import Administration in the case of district V. On December 12, 1957, the special committee reported as follows:

> . . . it is apparent that district V continues to be an area in which commercial imports are necessary to supply domestic production.

For this reason, district V quotas are assigned to balance supply and demand within district V. If the same principle were applied to district I, which is far more deficient in regional supply than district V, the most abusive feature of the present system would be corrected.

Mr. Chairman, we appreciate the opportunity to appear before you. Mr. Van Guens and I would be happy to answer any questions you may wish to put to us.

(Attachments to the above statement follow:)

Regions	Operating refinery capacity, Jan. 1				Approximate change in output of 4 major petroleum products resulting from change indicated in col. 2 (1,000 barrels)[3]	Percent of total change in output	Changes in consumption of the 4 major petroleum products in the period 1965-59 (1,000 barrels)[4]	Percent of total change in consumption	Total consumption, 4 major products in 1965 (1,000 barrels)[5]	Percent of total 1965 consumption
	1965,[1] barrels per day	Percent of total capacity	Difference,[2] 1965-59, barrels per day	Percent of total difference						
East coast: District I Connecticut, Delaware, District of Columbia, Florida, Georgia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, West Virginia.	1,449,000	14.3	−108,000	−15.2	−34,000	−15.0	[6] +226,622	53.0	[7] 1,444,192	44.8
Pacific coast: District V California, Oregon, Washington, Nevada, Arizona, Alaska, Hawaii.	1,591,000	15.6	+160,000	+22.5	+51,000	+22.5	+68,018	15.9	423,367	13.2
Southern oil States Arkansas, Kansas, Louisiana, Mississippi, New Mexico, Oklahoma, Texas.	4,590,000	45.2	+465,000	+65.4	+147,000	+65.0	+27,065	6.3	347,340	10.8
Northern oil States Illinois, North Dakota, Wyoming.	821,000	8.1	+94,000	+13.2	+30,000	+13.3	+15,798	3.7	182,550	5.7
All other States Alabama, Colorado, Idaho, Indiana, Iowa, Kentucky, Michigan, Minnesota, Montana, Missouri, Nebraska, Ohio, South Dakota, Tennessee, Utah, Wisconsin.	1,710,000	16.8	+100,000	+14.1	+32,000	+14.2	[8] +90,432	21.1	818,908	25.5
U.S. total	10,161,000	100.0	+711,000	100.0	+226,000	100.0	+427,935	100.0	3,216,357	100.0

[1] "Petroleum Facts and Figures," 1965 edition, American Petroleum Institute, New York City.

[2] Same as [1].

[3] Calculated on the basis that the 4 major petroleum products represent about 86.5 percent of the crude oil intake of a representative oil refinery and 365 operating days.

[4] Figures taken from the mineral yearbooks of the U.S. Department of the Interior, the volume on mineral fuels, for the years 1960 and 1965.

[5] Same as [4].

[6] The change in consumption of 3 major petroleum products, gasoline, kerosene and distillate fuel oil between 1959 and 1965 was 181,362,000 barrels. This figure was calculated to give the picture independent of residual fuel oil imports into district 1, which are considerable.

[7] The total consumption of 3 major petroleum products, gasoline, kerosene and distillate fuel oil in 1965 was 1,065,529,000 barrels. This figure was calculated to give the picture independent of residual fuel oil imports into district 1, which are considerable.

[8] This figure is slightly too high because some figures on consumption of the 4 major petroleum products in Hawaii for 1959 we could not obtain in the time available.

[From the Fortune magazine, April 1965]

U.S. Oil: A Giant Caught in Its Own Web

(By Gilbert Burck)

In the name of conservation the U.S. set up a state-regulated crude-oil cartel, which today wastes anywhere from $2 billion to $4 billion a year. It contributes little to national security and saps the competitive strength of a great energy industry.

Just as a man who tries to wall himself off from the world only makes himself an easier mark for it, so a business that essays to insulate itself from the inexorable forces of the marketplace only becomes more vulnerable to them. The most striking current example of this old economic law is none other than the great U.S. crude-oil industry, which consists of a few dozen large integrated companies and about ten thousand "independents." Together they produce some $8 billion worth of domestic crude a year.

Despite its high profit, the industry's growth rate has been slowing down. At the same time it is plagued by rising costs, overcapacity, and softening prices. It is grievously harrassed by the competition of cheap foreign oil and domestic natural gas and natural-gas liquids, and is seriously threatened by the competition of shale oil, coal, and nuclear power. Indeed, the U.S. crude-oil industry finds itself in perhaps a worse position than the foreign crude industry, whose tribulations were set forth in these pages two months ago.

The chief reason the industry is in this predicament is that the production and pricing of U.S. crude have been called off from free market forces by a system of government controls whose self-defeating complexity is matched not even in the U.S.S.R., and whose affection for special and parochial interests as distinguished from the national interest is matched not even in the myths of the robber barons. The rigging of crude production by the oil-producing states flourishes in the cause of conservation, competition, and national security, but it has turned out to be an elaborately organized system of government-guided waste that escalates costs and has been not too inaccurately described as a menace to national security.

The price of the average barrel of crude produced in the U.S., according to a commission appointed by President Kennedy, is about $1 higher than it would be if subjected to genuine competition, and is thus costing the nation at least $3.5 billion a year more than it might, or nearly $20 for every American man, woman, and child. Such figures, moreover, take no account of the industry's bountiful tax concessions, of which the depletion allowance alone fetches it about $1 billion a year. Defining efficiency as making the most of the nation's resources, human and otherwise, it is fair to say that if U.S. manufacturing, mining, and transportation had remained as inefficient as U.S. crude-oil production, the nation's productivity and living standards would be back where they were years ago. If, on the other hand, the efficiency of crude production had kept pace with the efficiency of petroleum refining, which by and large is free of state control, the oil industry as a whole would be much healthier and the country a lot better off.

The inexorable forces of economics, as they always do, have lifted the problem from an academic to a real and even urgent level, and the industry has begun to understand if not embrace the hard choice before it. Farsighted Texan producers like Michael T. Halbouty and zealous Texan conservationists like Robert Hardwicke have been struggling for years to reform producing practices. Most oil-producing states have adopted such reforms as the pooling of small properties, and the arch-conservative Texas Independent Producers and Royalty Owners Association has at last pushed a pooling bill through the state legislature. Meantime the industry's problems have been threshed out in dozens of scholarly papers (some sponsored by Resources for the Future) written by such students of petroleum as M. A. Adelman of M.I.T., Stephen McDonald of the University of Texas, James McKie of Vanderbilt, Wallace Lovejoy and Paul T. Homan of Southern Methodist, and Henry Steele of Rice.

All are painfully aware that the crude-oil business is an agglomeration of intricate laws and very human beings whose ways are hard to change suddenly or dramatically. But as professional guardians of free enterprise they have persisted in demonstrating the industry's contradictions, suggesting practical reforms, and warning of the inevitable reckoning. Adelman, for one, has shown a growing impatience with the industry's languor in adjusting to the inevitable. In last October's *Southern Economic Journal* he donned the chemise of a prophet and discharged a Ciceronian blast surely unique in the annals of economic periodicals. After arguing that the greatest menace to Texas (and other) producers was their delusion that the world owes them a living, Adelman perorated: "It is this loss of touch with reality that seems to mark a group as being ripe for destruction. 'The Lord shall smite thee with madness and blindness and astonishment of heart; and thou shalt grope at noonday as the blind grope in the darkness, and thou shalt not prosper in thy ways.' "

THE RULE OF CAPTURE PREVAILS

Even the oil producers of Texas do not "grope at noonday as the blind grope in the darkness" without reason. The reason is complex, and it begins with Anglo-Saxon common law, which originally protected a landowner by allowing him to keep whatever game he captured on his land. The "rule of capture" survived in the U.S., and by and by was applied to "fugacious" resources like gas and oil. But the trouble is that oil lurks under pressure in large, irregular underground reservoirs; and although the land above a reservoir may be owned by dozens of people, one well can drain everybody's oil. When the great oil strikes of the 1920's and early 1930's opened up colossal reservoirs, the rule of capture resulted in wildly excessive drilling, with everybody frantically—and necessarily—trying to capture his neighbor's oil as well as his own. Wells were often drilled so closely that derrick legs intersected. This kind of togetherness resulted in immense waste. Belowground, pools lost their pressure long before the recoverable oil was forced out; aboveground, oil was dumped on the ground or sold at ludicrously low prices.

Since the unrestricted rule of capture seemed so destructive, some kind of government control was inevitable. In retrospect, the most logical course was (and still is), whenever possible, to "unitize" each reservoir, or to compel owners to get together and maximize their profits by drilling the minimum number of wells needed to drain a single reservoir efficiently. Given unitization, normal competition eventually could have taken care of most of the problems of production, prices, profits, and investment, and so almost automatically could have made the most of the country's resources.

But not enough was then known about the structure of oil reservoirs to make the benefits of unitization clear to most oilmen. Moreover, the development of the great East Texas field, together with the onset of the depression, created a genuine emergency. And everywhere, in those confused days when the blue eagle of NRA was being readied for flight, there existed the vague but convenient fear that the big integrated companies, which controlled pipelines and refineries as well as wells, would freeze out the independents and monopolize the industry. In the hallowed names of competition, conservation, and national security, therefore, the governments of the chief oil-producing states in effect set up an open-end, fair-share, producers' price-fixing cartel.

Maintaining contact through an organization that became known as the Interstate Oil Compact Commission, the state regulatory commissions aimed expressly at conserving oil and stimulating the discovery of new oil, but they also responded sympathetically to the tremendous political pressures advanced by small property owners. Most of them allowed anyone who owned land to drill it. This, however, left the problem of "wasteful" overproduction looming big as ever. Therefore most states with considerable oil production found themselves obliged to regulate it. Each state did so by "prorationing"—i.e., by restricting its aggregate production to estimated market demand and then assigning each well an "allowable" or fair share of that production—with the small tract owners, be it noted, usually managing to get a fairer share than the others. In adjusting output to demand, the prorationing or "market demand" states in effect put themselves in price maintenance. And since Texas has accounted for as much as 45 percent of the country's output, the Texas Railroad Commission, which took over the job of regulating the state's crude production, became the prime oil price fixer for the U.S.—and for a time for the world.

DRILL, BROTHER, DRILL

Even more than most cartels, this cartel fosters neither competition, true conservation, nor national security; and it makes a mockery of national economic efficiency. Real competition by definition exists only when there is a chance that any competitor will get hurt and a certainty that some will; the oil-producing industry commits the classic blunder of confusing the preservation of competition with the preservation of competitors.

Because the system results in vastly more wells than necessary, it wastes untold sums in capital and operating expenses. For the well, not the reservoir, has been the basic unit of regulation. Imagine that you, as an operator, own all the land over a pool that can be drained efficiently with ten widely spaced wells; left alone, you would minimize costs and maximize profits by drilling only ten wells. But under regulation you would be a fool to do so. For you get an allowable for each well, and the only way to maximize output (and profits) is to puncture your property with as many wells as spacing regulations let you get away with. If you own only part of the land over a pool, the necessity to drill useless wells becomes more urgent, for if you don't drill your neighbor will. Worse, the deeper you drill, the greater your allowable. Thus more than half the 194,500 wells in Texas are superfluous, drilled merely to get more allowables, and represent waste running into billions. According to Dr. Stephen McDonald, all the oil states together have recently thrown as much as $1 billion a year into superfluous new wells.

Inevitably, all this drilling has boosted capacity to produce crude much higher than the demand for crude; today Texas can produce more than twice as much as it does, and the nation as a whole 50 percent more. So to keep total supply in line with demand, the commissions have limited allowable production to as little as one day out of three—i.e., many a producer is forced to operate his plant at one-third of capacity. As a result, costs per barrel produced are far higher than they should be.

Intensifying this escalation of overcapacity and waste is yet another and perhaps more flagrant kind of inefficiency. So-called marginal or low output "stripper" wells, which in Texas yield an average of 5.2 barrels a day apiece, are exempt from prorationing or market-demand restrictions, and hence can be operated continuously. So also can "secondary recovery" installations, which rejuvenate depleted reservoirs, and which may or may not be efficient. The efficient wells, as usual, take the rap. In November, 1963, for example, the Texas Railroad Commission allowed production of 2,828,000 barrels, of which about 1,100,000 were exempt as coming from strippers and secondary-recovery wells. Only 1,580,000 barrels were drawn from prorationed wells, which could have produced more than twice as much as they were allowed to. In the crowded fields of East Texas some flush wells good for 1,000 barrels a day are actually turning out only eight, while nearby strippers are producing ten. Collecting the dribbles of oil from strippers in the name of conservation makes about as much economic sense as paying a man $500 to till a plot with a total output worth $50.

Such "conservation," indeed, conserves mainly the incomes of small producers, royalty owners, and local tax collectors and other miscellaneous personnel; and it all adds up to featherbedding on a multibillion-dollar scale. Adelman estimates that overdrilling plus the 400,000 stripper wells in the U.S. (93,000 in Texas) cost some $2.5 billion a year, even after making generous allowance for the possibility that many strippers would turn out to be economic. Nor is this the end of it. So long as strippers are exempt from prorating, oilmen can make money, at today's prices, bringing in uneconomic wells with a capacity of ten barrels or less a day; thus new ones are constantly being drilled.

HOW TO SAVE THAT $2.5 BILLION

Besides wasting manpower and capital, eliminating real competiton, and launching costs and prices into a self-defeating upward spiral, the prorationing system has not fostered national security. Some argue that excess capacity is necessary for national security, but if so it plainly might be cheaper to subsidize such capacity and keep it out of the mainstream of the crude-oil business. Despite the system's protected price structure, furthermore, prorationing seems at least partly responsible for a steep recent decline in exploration and in the discovery of low-cost fields. The independent producers monotonously argue that prices are too low to encourage exploration, but the fact seems to be that under different circumstances prices could be a lot lower and still encourage plenty of it. Why risk money looking for oil when you are allowed only a short period of unrestricted production before you are assigned allowables but force you to run your plant eight to twelve days out of thirty? The easy and safe thing to do is to drill "development" wells in proved fields. And this, as we have seen, is precisely what operators have done. If some of the billions spent on drilling superfluous wells in Texas alone had been spent on true discovery wells, there would be little worry about new discoveries.

On the grounds that the nation must maintain a crude-oil industry large enough to take care of its needs in any emergency, operators without foreign interests also fought for and got mandatory quotas on imports of cheap foreign crude, and are now fighting for reduced quotas. Some economists, however, hold that national security is abetted, not injured, by free trade in oil. Owing to transportation costs, they say, cheap foreign oil would not displace enough domestic crude to affect the industry's ability to take care of U.S. needs. But it would bring down the price of U.S. crude enough to make it competitive with foreign oil on the east coast, or by about $1.25 a barrel; and this price would, as any good price should, automatically eliminate much or most of the industry's waste. It would also save the country about $4 billion a year.

Even Adelman, however, is willing to go along with the plea that the nation's security requires a substantial domestic industry, supported if necessary by import restrictions. All the more reason, he insists, why the country should, as it could, save about $2.5 billion a year by capping uneconomic stripper wells and unitizing all the new fields that can be unitized. If only to dramatize the problem, he has come up with a radical solution. Since the inefficient small operators made their investment in good faith, let the oil-producing states buy up the uneconomical strippers, financing the operation perhaps with a tax on the oil industry. Then let the states cap the strippers, unitize new fields, gradually let competition do the rest. Much of the inefficient domestic industry would disappear, but the rest would survive, leaner and more efficient. The very efficient producers would be vastly better off; operating at a higher rate but at much lower prices, they could make more money than they do now.

THINGS ARE BUSTING OUT IN TEXAS

This harshly salubrious advice arouses no jubilation among the "little" men whose planes darken the skies above Austin, Baton Rouge, and Oklahoma City on days when the regulatory commissions sit in state and hold allowable hearings. But the system is showing cracks and fissures. The Interstate Oil Compact Commission, which is hardly more than a debating society, has never had the power to coordinate the states' output, so the regulatory commissions themselves have begun, in a sense, to compete with one another. Some of the lesser oil states, like Wyoming, do not proration at all, and make the best of both worlds by selling all the oil they can produce at cartel-protected prices. Louisiana has for a long time offered incentives to efficient production by encouraging wide spacing of wells, by allowing higher takes from flush wells, by making concessions to offshore drilling, and by encouraging unitization. This is one, if only one, reason why Louisiana's share of U.S. crude production rose from 11 percent in 1956 to 20 percent last year. It is also an important reason why Texas' share fell from 42 to 35 percent during the same years, and why Texas' crude production declined from 3,027,000 barrels a day to about 2,710,000. Such is always the penalty of the cartel leader, which holds the umbrella over the other members.

More than anything else, perhaps, this has given Texans pause and generated a new ferment in the state's oil circles. As of last January 1, the Texas Railroad Commission introduced a new schedule of allowables based on a forty-acre-per-well drilling pattern and encouraging operators to space wells even wider. This schedule followed several decisions of the Texas Supreme Court that dented the practice of considering the well as the unit of production by reducing severely the incentive to drill on small tracts. Until recently the owner of a tract, however tiny, could drill and expect an allowable that would recover his investment and earn a fair return. But the court held that the small owner can recover only his share of the oil or gas that lies underground, whether he recovers his investment or not. The allowables must now be assigned on an acreage basis; if the unit of production is forty acres, for example, the owner of a one-acre tract gets only one-fortieth of the allowable. Although the decision leaves the well as the basis of regulation, it was a step in the right direction. And it was responsible for prodding the Texas Independent Producers and Royalty Owners Association into sponsoring its pooling bill. The law now permits a small owner to force his way into a larger adjoining unit, or a group of owners to force a small owner to pool his property with theirs.

But this is just a small beginning. Merely to correct the most flagrant abuses of wasteful regulation, economists agree, the trend toward wider spacing of wells must be accelerated and small-tract drilling must be eliminated. More important because nothing has been done about them, the irrational advantage enjoyed by many high-cost deep wells must be corrected, and the prorationing exemptions enjoyed by stripper and other wells must be eliminated or at least judged on an economic basis. After that should come compulsory unitization, which would reduce costs greatly, particularly in the more productive reservoirs.

Beyond this, reform will have to look to the restriction and eventual elimination of the whole system of market-demand prorationing. That system practically derives its powers from the small operators and royalty owners, who elect and pressure legislators and the very commissioners themselves. As Henry Steele has pointed out, if the authorities institute compulsory unitization while still keeping the power to proration, they will just naturally continue to favor inefficient wells and fields and to cut back production of the efficient and unitized ones. Efficiency and state control of production, as usual, don't mix.

BUT PRICES ARE FALLING

Time is running out on the whole prorationing system. It can no longer deliver all that its confectors hoped it would and all that its partisans claim it can. In the face of mounting costs, U.S. crude prices are going down—and they are going down despite one of the neatest systems ever invented for keeping them up. The price of crude is nominally set by the big buyers. At the time they inform the regulatory commissions how much oil they intend to buy during the coming month, they publish or post the price they are willing to pay for it. These buyers are unique; they usually *like* high prices, and they like them for the reason that most of them are also big producers of crude oil. Owing in part to the depletion allowance, they can make more producing crude than they can refining and marketing it. Or so the argument goes. Just how prices are set is a complex question about which oilmen and oil economists disagree, but the important point here is that the state commissions in effect aim to maintain the price. If they could adjust supply to demand perfectly, producers not only could make prices stick, but could meet the mounting cost of waste generated in the market prorationing system by raising prices at will.

For several years, however, the commissions have been having a harder time adjusting supply to demand. One basic reason is that the states that do not practice market-demand prorationing have been increasing their output significantly. Thus they pump more oil into the market than it can immediately use and when that happens somebody is always willing to sell it at a discount. The independents complain that much price cutting is done at their expense; a recent report to Governor Connally of Texas accuses the integrated companies of making discriminatory price cuts, "without reducing wellhead price postings as such." What the report ignores is that such cuts, if they actually take place, would not occur if prices were right.

It is true that the average posted price at the wellhead has declined only from $3.09 in 1957 to about $2.88. But posted prices, as Wallace Lovejoy remarks, are often fictitious. Crude is sold in many places below the posted price, and only when discounts become widespread are they recognized by a reduction in posted prices. What matters, then, is not how much prices have fallen since 1957, but where they are going from here.

CHEAP SUBSTITUTES FOR CRUDE

Several forces are conspiring to drive them downward, over both the short and the long run. To begin with, the growth in consumption of petroleum products, including natural gas, has slowed down considerably since 1956. Demand for crude has lagged even more, for it is taking a beating at the hands of natural gas, even though the two are produced by the same industry and often in the same wells. The reason commonly advanced is that the final price of natural gas is controlled not by state authorities but by the Federal Power Commission, which regulates the industry as a public utility and allows gas to earn only a fair return by utility standards. Oilmen complain that the FPC has given gas an artificial advantage. Most economists would probably agree that gas regulation is senseless and harmful; but whether the price of unregulated gas would be much higher than today's price is doubtful. Before FPC stepped in, the price of natural gas was declining vis-à-vis oil. Gas can be produced cheaply partly because much of it is collected independently of oil and therefore is not prorationed, and also it is distributed cheaply. Moreover, oil is just too expensive.

Natural gas, at all events, has contributed substantially to the decline in crude's growth rate. Nearly half of all U.S. dwelling units are heated by gas, and the percentage is still increasing. Gas supplies U.S. industry with 6,800 trillion B.T.U. annually, while oil supplies only 4,000 trillion. And natural-gas liquids, or fluid hydrocarbons stripped from the gas before it is piped away, are accounting for nearly 14 percent of the nation's liquid hydrocarbon supply, against 8 percent in 1950. These liquids are cheap substitutes for crude oil, particularly in making gasoline, and they have proved a boon to independent or nonintegrated refiners, who by reducing their use of expensive crude have been able to compete more effectively. At the same time, refiners have been getting more revenue out of a barrel of crude by raising efficiency and by increasing the proportion of lighter products like gasoline. Nearly half a barrel of crude is converted into gasoline against a third forty years ago. Demand for refiners' products, in short, has grown faster than refiners' demand for crude.

This trend is leveling off because refiers cannot continue to increase the proportion of lighter products at the rate they have. Some oilmen, however, believe the pressure on crude prices will not abate—even though integrated companies may prefer to maintain crude prices and profit margins at the expense of refinery margins. These oilmen reason that the independent refiner's inability to keep on rducing his ratio of crude to finished products will squeeze him into looking around more aggressively for discounted crude, which will probably become more and more plentiful.

LOOPHOLES EVERYWHERE

Then there is the heavy and growing pressure of cheap foreign oil. In 1957, largely as a result of the pressure of the domestic producers, the big U.S. international companies that produced and imported most of the foreign oil agreed voluntarily to limit their imports. Thanks ironically to the U.S. independents that had gone abroad and found oil, however, imports of crude kept rising—from 10 percent of U.S. consumption in 1954 to 14 percent in 1958. So in 1959 the President (actually the Interior Department), acting on authority conferred by an extension of the Trade Agreement Act of 1955, slapped on mandatory quotas that aimed to keep imports from growing faster than domestic consumption.

But the price of foreign crude is low and constantly descending, and so is the cost of shipping oil here. Both Venezuelan and Middle East crude can be landed on the east coast for $1 to $1.50 a barrel less than Texas crude, and are selling at about $1.25 less. In 1964 crude imports totaled 1,201,000 barrels a day, against domestic production of 7,700,000. The presence of foreign oil selling at, say, $1.60 is bound to have a depressing effect on the product selling for about $2.88. So to protect the independent refiner from the competition of cheap foreign crude, the federal government has allocated a "fair share" of the imports to every established refiner in the U.S. In practice, inland refineries, which might pay more for foreign oil plus freight than for domestic oil, simply trade their import quotas off for the domestic product at a windfall profit of about $1.25 per barrel. And some or much of this windfall finds its way into price cuts and pressure on crude. Since quotas depend on the amount of crude a refinery uses, everybody processes as much crude as possible. This results in reduced product prices which compel the independent refiner to scratch around for cheaper U.S. crude, which in turn he must wangle out of his regular suppliers or find elsewhere.

What independents denounce bitterly as the bootlegging of cheap foreign oil is going on merrily, if as yet on a small scale. In the interest of national security, crude is allowed to enter the U.S. overland quota-free. One smart entrepreneur has manipulated this provision to import Mexican oil by sea; his Operation "El Loophole" is described on pages 115 to 117. This movement is only a drop in the bucket of U.S. crude consumption, but it is neatly symbolic of the crude industry's predicament.

Just as symbolic and potentially more substantial are the attempts of U.S. industry to get around the handicap of high U.S. crude prices. Chemical companies pay much more for petrochemical feedstocks than the oil companies, because they have no cheap domestic supply of their own and enjoy no import quotas. Union Carbide, for example, wants to make ethylene from imported naphtha (crude gasoline) costing about half as much as the domestic product, and is asking for permission to build a plant for this purpose in the New Orleans free-trade zone. The U.S. oil industry, naturally enough, is fighting such projects.

Despite the independents' demands for reduced imports, many oilmen believe that imports are likely to increase at least as fast as the nation's consumption. Under the Trade Agreement Act, the President can set quotas not only to achieve security but to ensure reasonable prices. Now that people are beginning to realize that more imports could assure lower prices without hurting anything much except featherbedding in the oil states, even a President from Texas may find it politically expedient to increase quotas. As foreign oil becomes still cheaper, this expediency is bound to become more attractive.

BREAKTHROUGH IN SHALE?

Over the long run, if a dozen years or so can be considered a long run, the supremacy of U.S. crude will probably be further shaken; never in history has the human race been confronted with so many sources of cheap energy. One is shale oil. The shale rock in the mesas of the Green River formation, covering some 16,000 square miles in the states of Colorado, Wyoming, and Utah, contains the world's largest known deposits of petroleum—perhaps 400 billion recoverable barrels, more than the crude reserves of the Middle East and ten times those of the U.S. The possibilities of extracting oil from shale at a profit have been bemusing a variety of entrepreneurs, as well as the U.S. Bureau of Mines, for some forty years, but it finally looks as if something would come of them.

Several oil companies are separately and jointly experimenting with different methods of extracting the oil. One of the most promising separates the oil from the rock by whirling crushed shale mixed with fiery hot ceramic balls in large drums somewhat like those used to make cement. This process is the property of Oil Shale Corp. ("Tosco"), financed by a group that includes such discerning risk-takers as Lehman Brothers. Together with Cleveland Cliffs Iron Co. and Standard Oil of Ohio, Tosco has acquired large holdings in Colorado and Utah, and the three are building a pilot plant that will be operating by summer.

A LESSON FOR OIL

Tosco's president, an aggressive Dutchman named Hein Koolsbergen, says that the company will eventually be turning out high-quality oil for $1.25 or $1.30 a barrel, and will be able to pipe it to the West Coast or the Middle West for about 30 cents. His production figures are regarded by oilmen as optimistic, but the extraction of oil from shale is essentially a materials-handling problem and economies of scale can be expected to work for it as volume increases. As Henry Steele notes, moreover, a large cost item in crude is merely finding it, and there are no finding costs for shale oil. And prorationing shale oil will be hard if not impossible. Some big companies with large reserves of low-cost crude have taken a defensive position in shale oil, but have been slow to show enthusiasm for it. But it is now being developed by miners and manufacturers and it may give the state regulatory commissions still more to worry about.

Both coal and nuclear power are also on the make. If the price of coal declines enough, heat pumps run by cheap electricity may take over much of the house-heating market; and coal may be converted to cheap gasoline within the decade. The coal industry is beginning to give the oil producers a valuable if painful lesson in how to adjust to the inevitable. Were the industry operating as it did thirty years ago, coal at the mine would probably be selling at $15 or more a ton instead of $5 or less. Beset by real competition, as oil should be, coal is unable to take refuge in state controls or to let the efficient hold a price umbrella over the whole industry. The inefficient producers are gradually dropping out of the game, and the efficient are becoming more efficient still. Although miners' wages have nearly doubled since 1948, coal sells for less than it did then.

One reason for coal's new dynamism is that the railroads, whose freight charges are a large part of coal's market price, have been roused into action by the threat of slurry pipelines, extra-high-voltage transmission, and nuclear power. By developing unit trains, they have cut some rates by as much as a third; and more reductions will be in order as new equipment is delivered. By the early 1970's, West Virginia coal may be selling in the New York City area for as little as $6 a ton, against $9.50 not long ago. In terms of heat content, $6 coal would be competitive with residual fuel oil selling at around $1.50 a barrel.

Nuclear power will probably become competitive with socalled fossil fuels—coal and oil—sooner than anyone thought possible a few years ago. The new Oyster Creek plant of the Jersey Central Power Co., as Fortune reported last month in Products & Processes, is already closely competitive with coal, and has been responsible for reduced prices on long-term coal contracts with some utilities. The plant benefited from steep cuts in prices by aggressive equipment manufacturers, but Philip Sporn of American Electric Power, for one, believes that nuclear energy is today feasible at around 27 cents per million B.T.U. This price is equivalent to coal at $7.07 a ton and oil at about $1.65 a barrel, and will go nowhere but down. The day will come, jokes one enthusiast, when nuclear engines will be powering oil tankers—if anybody will find it worthwhile to ship oil.

A DIFFERENT KIND OF INDUSTRY

All oilmen who know what is going on in the world realize the U.S. crude industry has painted itself into a corner, and any respite from competitive pressures would serve only to confine it the more. If, for example, a world crisis were temporarily to shut off or divert foreign oil and U.S. excess capacity began to disappear, prices would firm up. Thereupon producers would inevitably rush in to drill more superfluous wells, waste and costs would rise, and the industry would find itself, when the crisis was over, less able to compete than ever before.

The U.S. actually contains enough cheap crude for the industry to compete profitably against all comers. But it will have to be a different kind of industry—leaner, smaller, less fragmented, and probably more profitable. It will have to realize it possesses no God-given exemption from economic laws and undertake a wholesale revision of its statist control system. It will have to forswear its phony conservation, eliminate the featherbedding that it piously describes as competition, disabuse itself of the notion that real competition will heave it into the clutches of the monopolists, and let prices find their economic level.

Senator TALMADGE. Thank you very much for your very fine statement. Would you tell the committee what imports and exports mean, first, to the economy of Savannah, Ga., and second, the State of Georgia.

Mr. KLINGEL. Without the Port of Savannah, and without the imports and exports, there would be no city in that part of our world. Our economy is completely and explicitly dependent upon the operations of the port and upon the import of raw materials for processing within the port.

We bring in veneer from the Amazon to make plywood. We bring in titanium to make titanium dioxide. We have two plants importing gypsum, in order to make building materials. We import petroleum in order to make roofing materials. Our great fertilizer industry depends on the import of potash and phosphate and, finally, meal, which is used to supply the Georgia poultry industry.

Jute moves through the port. All of the jute to support the carpet industry of north Georgia. We bring in steel imports, in order to maintain a small but flourishing local steel-fabricating industry. We build ships, barges, marine cranes, dredges, and so forth.

Our exports through our port move heavily to the great poultry production of north Georgia and the great soybean production of Georgia, as well as the kale exports of the United States. Our largest single industry is the pulp and paper industry, which is a heavy foreign exchange earner in exports greatly through our port.

Farm machinery from the Middle West goes abroad, as well as all the types of general cargo, including even schoolbuses made in Georgia. And I might point out that Savannah is the largest general cargo port between Hampton Roads and New Orleans, and as far as our balance of trade is concerned, we export both in tonnage and valuations more than we import.

Now, Senator Dirksen and several others made the point this morning that imports may cost certain areas employment, but imports in our area and in other coastal areas are our only means of creating employment. The case of Appalachia was cited, and the decline of the textile industry in Appalachia was blamed upon a flood of cheap foreign imports.

But most people don't realize that the Federal Government recently saw fit to designate my region, coastal Georgia, South Carolina, and North Carolina, a distress area just like Appalachia, and plans to spend a great deal of money to help us create jobs.

Now, our per capita incomes are lower than those of Appalachia, but the only way we can create jobs is by exploiting our advantages in foreign trade, and the economy of the South Atlantic coast would dry up and blow away if we defeat the import and export trade of the United States by excessive measures of protectionism.

Senator TALMADGE. Senator Bennett.

Senator BENNETT. No questions.

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

Mr. KLINGEL. Thank you, Senator.

Senator TALMADGE. The next witness is Mr. Walter Noyes, and Richard Whiting, representing the Oil Dealers Association of Rhode Island and the New England Fuel Institute.

STATEMENT OF RICHARD WHITING, REPRESENTING THE OIL DEALERS ASSOCIATION OF RHODE ISLAND AND THE NEW ENGLAND FUEL INSTITUTE

Mr. WHITING. Mr. Chairman, members of the committee, I am afraid I am going to have to go it alone. Mr. Noyes is not able to be with me today.

I am Richard C. Whiting, officially appointed representative by the board of directors of the New England Fuel Institute, an organization of over 1,000 retail fuel distributors throughout the six New England States.

This organization wishes to be recorded in opposition to S. 2332 for the following reasons:

1. It would substitute inflexible legislation for the present flexible control policy exercised by the U.S. Department of the Interior.

2. Bearing in mind the needs of national defense and the balance between supply and demand, the New England Fuel Institute wishes to state that the U.S. Department of Interior, sensitive to changes which may result from varying conditions, such as limited war, weather, disruptions to transportation, and international political situations, has the capability to cope with rapidly changing conditions that affect the petroleum-using consumer.

3. Under present regulations, the U.S. Department of the Interior has the authority to adjust and deal with imbalances in the supply of finished petroleum products.

4. Being vitally concerned with the supply of finished petroleum products for the consumer in the New England area, which with less than 5 percent of the population of the United States, consumes over 20 percent of the Nation's No. 2 fuel oil, the New England Fuel Institute feels there is a definite need for the continuation of the present flexible import control policy.

I wish to thank you, sir, for allowing us to speak, for allowing me to speak for my constitutents back home.

Senator TALMADGE. Thank you very much. We appreciate your appearing.

Any questions, Senator Bennett?

Senator BENNETT. No questions.

Mr. WHITING. Thank you, sir.

Senator TALMADGE. The next witness is Mr. Wilfred H. Hall, executive vice president, National Oil Jobbers Council.

STATEMENT OF WILFRED H. HALL, EXECUTIVE VICE PRESIDENT, NATIONAL OIL JOBBERS COUNCIL; ACCOMPANIED BY JOHN LICHTBLAU, RESEARCH DIRECTOR, PETROLEUM INDUSTRY RESEARCH FOUNDATION, INC.; AND CHARLES HARTMAN, NATIONAL OIL JOBBERS COUNCIL

Mr. HALL. Mr. Chairman and gentlemen, we appreciate the opportunity of being here today. I should like to identify two individuals with me, Mr. John Lichtblau on my left, who is research director for the Petroleum Industry Research Foundation, and Mr. Charles Hartman, who is with the National Oil Jobbers Council.

Senator TALMADGE. We are delighted to have you with us, gentlemen.

Mr. HALL. Thank you, sir.

My position is that of executive vice president of the National Oil Jobbers Council. The National Oil Jobbers Council represents 8,600 independent petroleum wholesalers throughout the United States, and in order to save the committee's time, I have appended to the report a list of the associations which compose the National Oil Jobbers Council.

Senator TALMADGE. Without objection, that will be inserted in the record.

(The material above-referred to, being exhibits I and II, attached to Mr. Hall's statement, follow:)

EXHIBIT I

The National Oil Jobbers Council (hereinafter referred to as NOJC) is an amalgamation of 34 state or regional associations covering 40 of these United States, and these are listed below. Through these groups, NOJC represents 8,600 independent petroleum jobbers and distributors. Their members sell 24% of the gasoline sold over the nation's highways and our arm of petroleum marketing distributes 75% of the heating oil sold in the nation. NOJC's interests are entirely in the marketing segment of the petroleum industry. As such, their members have the closest contact with the ultimate consumer.

NOJC AFFILIATES

Alabama Petroleum Jobbers Association, Inc.
Arkansas Oil Marketers Association, Inc.
California Oil Jobbers Association
Colorado Petroleum Marketers Association
Connecticut Petroleum Association
Empire State Petroleum and Fuel Merchants Association, Inc.
Florida Petroleum Marketers Association, Inc.
Georgia Oilmen's Association
Illinois Petroleum Marketers Association
Independent Oil Marketers Association of Indiana, Inc.
Intermountain Oil Marketers Association
Iowa Independent Oil Jobbers Association, Inc.
Kentucky Petroleum Marketers Association (Jobber Division)
Louisiana Oil Marketers Association (Jobber Division)
Michigan Petroleum Association
Mississippi Oil Jobbers Association
Missouri Oil Jobbers Association
Nebraska Petroleum Marketers Association, Inc.
Independent Oil Men's Association of New England
New Jersey Fuel Merchants Association
New Mexico Petroleum Marketers Association
North Carolina Oil Jobbers Association
Northwest Petroleum Association
Oklahoma Oil Marketers Association
Oregon Oil Jobbers Association
Pennsylvania Petroleum & Fuels Association, Inc.
South Carolina Oil Jobbers Association
South Dakota Independent Oil Men's Association
Tennessee Oil Men's Association
Texas Oil Jobbers Association
Virginia Petroleum Jobbers Association
Washington Oil Marketers Association
Wisconsin Petroleum Association
Wyoming Oil Jobbers Association

EXHIBIT II

The activities of the Petroleum Industry Research Foundation, Inc. (PIRINC) consist of economic research and writing on a variety of subjects affecting the U.S. oil industry. Much of its work is concerned with the markets for crude oil and oil products on the U.S. East Coast where 83% of all crude oil and virtually all products imported into the U.S., east of California, are processed and/or consumed. PIRINC's sponsors consist of oil refiners and independent oil products marketers located on the East Coast. Its Board of Directors, which formulates all policy is composed entirely of independent marketers.

Mr. HALL. Thank you, sir.

In order to save the committee's time, I am asking Mr. John Lichtblau to testify for both of our organizations, because there are several persons following us, and our stand on the matter is roughly comparable.

Senator TALMADGE. Thank you very much.

Mr. HALL. So, with your permission, I would like to present Mr. Lichtblau and let him proceed.

Mr. LICHTBLAU. Mr. Chairman, my testimony today reflects the view of the Petroleum Industry Research Foundation, Inc. (PIRINC) with respect to crude imports. However, we concur in the entire testimony.

The National Oil Jobbers Council's (NOJC) position applies specifically to products as affected by the proposed bill.

I should first like to center remarks on products.

By including bonded and Puerto Rican oil products imports within the 12.2-percent limit, the proposed bill reduces total imports into districts I and IV by 85,600 barrels daily, or by more than 8 percent, based on 1966 and 1967 data, thereby cutting the existing level of total products and crude quota imports from 12.2 to 11.8 percent of crude and natural gas liquids production east of California.

S. 2332 also proposes to phase out all products imports, both those that come in under license and those that come in under the aforementioned categories. This provision would ultimately eliminate some 160,000 barrels daily of products imports, and I might add that most of these now come from the Caribbean area, which supplies virtually all of our product imports, but less than half of our crude imports.

While light oil products imports have never played a major role in U.S. oil imports, the modest quantities which have come in under the various categories have at times played an important role in preventing local shortages, particularly on the U.S. east coast. Thus, the 2.4 million barrel rise in distillate oil imports into district I in the 5 months of 1967 before the outbreak of the Middle East crisis has been quite useful in the present tight distillate supply situation.

The NOJC feels that a flexible import policy might well be implemented to meet demand during the forthcoming heating seasons. It would be unwise to remove this flexibility by phasing out products imports as suggested in the bill.

Now, I should like to turn to a discussion of crude oil imports as PIRINC views them.

The existing restrictions on U.S. crude oil imports are extremely burdensome to all consumers and while they may be necessary and justifiable as a national security measure, it must not be forgotten that they put an enormous cost burden on all U.S. consumers of oil. It can be calculated that in the absence of import controls the current annual U.S. oil bill would be several billion dollars less because of the combined impact of lower cost foreign oil imports and the effects of these imports on domestic oil prices.

Notwithstanding this enormous cost, we do not believe that the administrative restriction on crude oil imports which has created it should be radically altered at this time. However, any act or action designed to increase this tremendous burden still further could make it truly oppressive.

Furthermore, any act or action designed to legally divorce the cost burden from its national security justification would threaten to saddle consumers permanently with this burden, regardless of future needs and conditions. Yet, S. 2332 proposes to do both of these things. As I already mentioned, it would reduce the existing level of quota imports by changing the definitions of what may be brought in under quota.

However, an even more undesirable aspect of S. 2332 is its basic concept of freezing the existing administratively set oil imports ratio by making it the legal maximum. The 12.2 percent ratio, useful as it may currently be, does not deserve to be perpetuated by Congress. It is strictly a working ratio, born out of compromise and expediency and fulfilling a particular function at a particular moment. Even if we assume that the 12.2 percent figure reflected the optimum ratio of imports to domestic production from the national security point of view at the time it was adopted, the factors which affected the determination of this ratio have certainly changed and will change again. Thus, it could be a grave error to accord the present ratio, without much further investigation, the status, force, and, above all, the permanency of Federal law.

If the 12.2 percent ratio as well as the existing domestic reserve/production ratio are to remain unchanged, we will have to discover at least 50 percent more gross oil reserves in the next 15 years than in the previous ones. Given the declining finding rate and the increasing trend in finding costs since the late 1950's, how can we be sure that we will really discover that much additional oil at a reasonable cost? But if we were to freeze the current import ratio into law, we would deprive ourselves of one of the principal variables to correct for any possible future shortage in domestic oil supplies.

Hence, the rigidity created by this bill could not possibly be considered as being in the interests of our national security. As the recent Middle East crisis has shown, oil's contribution to the U.S. national security lies to a large extent in its amazing ability to adapt to suddenly changing conditions. How, then, can it serve our national security, in whose name the proposed bill is being offered, to severely curtail the industry's potential flexibility by eliminating the Executive prerogative of raising import quotas if and when this should become necessary.

Furthermore, with the removal of even the potential of higher import quotas, Congress would also eliminate a major potential competitive factor from the U.S. oil industry and thus contribute to any possible upward pressure on prices.

While the last paragraph of the bill purports to provide an Executive escape clause, this is really of relatively little value in our opinion. The sudden temporary need for additional imports, particularly products imports, could very well occur in situations which could not be classified as a national emergency for political, geographic or other reasons. Yet, the escape clause would not apply to any of the more likely causes for additional import requirements, such as local or regional natural disasters, extreme weather conditions, sudden radical changes in supply or demand patterns, et cetera.

Thus, in view of all the facts cited herein, we believe that the determination of the oil import level should be left with the Executive and should not be fixed by Federal statute as proposed in S. 2332.

Thank you, gentlemen, for giving us this opportunity.

Senator TALMADGE. Thank you very much, gentlemen.

Any questions, Senator Bennett?

Thank you very much. We appreciate your coming.

Mr. LICHTBLAU. Thank you.

Senator TALMADGE. The next witness is Mr. Otis H. Ellis, Society of Independent Gasoline Marketers of America.

STATEMENT OF OTIS H. ELLIS, LEGISLATIVE COUNSEL, THE SOCIETY OF INDEPENDENT GASOLINE MARKETERS OF AMERICA

Mr. ELLIS. My name is Otis Ellis. I maintain law offices at 1001 Connecticut Avenue, Washington, D.C. I would like to have my statement, together with the attachment, included in the record, verbatim, and then I shall try to skip part of it in the interest of conserving time.

Senator TALMADGE. Without objection, it will be inserted in the record. (See p. 359.)

Mr. ELLIS. For once, my statement is more concise than it usually is, so if I read it all I don't think it would be burdensome.

I appear here today on behalf of the Society of Independent Gasoline Marketers of America (SIGMA). This is a trade asosciation whose membership consists of independent gasoline marketers that sell gasoline under their own "Private Brands" as distinguished from the brand name of a supplier.

These marketers are oftentimes referred to in the industry as "Private Brank Marketers." Private brand marketers operate thousands of gasoline service stations in the United States through which they sell several hundred million gallons of gasoline, annually. This type of marketer is considered by some to be the principal competitive force in the retail gasoline market.

The private brand marketer occupies the most tenuous position of any type marketer of petroleum products. This is due to the fact that he operates under his own brand flag and does not have the protection of a branded supplier either from the standpoint of price protection or guarantee of adequate supplies—both protections are enjoyed by branded wholesalers and branded retailers.

From a competitive standpoint, this is a precarious position which has been getting worse for the past several years, due to the fact that this marketer who once had many sources of supply, is now faced with the severe problem of having relatively few sources of supply available to him at prices which will permit him to function competitively in the marketplace and make a reasonable profit. All industry trends indicate that this situation will get worse rather than better and this is particularly true if oil imports are further restricted.

The continued existence of this independent gasoline marketer depends on two basic necessities. First, he must have multiple, competitive sources of gasoline supply at prices which enable him to be competitive and return a reasonable profit.

Second, there must be completely adequate supplies of gasoline available to all local markets in the United States. The National inventory of gasoline might reflect adequacy to meet total national demands, but be so located as to produce a shortage or "tight" supply situation for many local markets. Anything which adversely affects source of supply, adequacy of supply to all local markets, procurement price, or competitive retail prices is of vital concern to this type of marketer. This independent marketer is therefore seriously concerned about rigid restrictions on imports of crude oil and its products, since we know from experience, that such restrictions, particularly if little or no fluctuation is permitted, adversely affect these items of concern. We are seriously concerned about any import limitations which do not permit fluctations to meet domestic demands and to the extent we are called upon to meet foreign demands.

Attached hereto is a copy of SIGMA's policy position on oil import restrictions. A thumbnail digest of this position is as follows:

SIGMA basically opposes governmental restrictions on the free flow of commerce in any article or commodity. We recognize, however, that the current oversupply of crude oil and products in world markets poses a serious threat to our domestic oil production segment, and particularly the independent producers in that segment.

For this reason, we alter our basic belief and feel that some form of restrictions are needed. We believe, however, that such restrictions should be permitted to fluctuate more broadly than the limitations provided in S. 2332 which seeks to impose a 12.2-percent ratio of imports to domestic production of crude oil and natural gas liquids in districts I and IV.

This morning there was a lot of talk about this 12.2 percent being in reality about what is coming in now. That is completely untrue, for the very simple reason that thye are including in this bill under imports things which are not included as imports under the present situation.

We believe that the current method of imposing quotas by the Department of Interior is not perfect and contains many inequities. However, we feel that this general method which permits import fluctuations up and down is better than the rigid provision contained in S. 2332.

This morning we heard from the independent producers. For 20 years I have been up here on this issue. For a period of 18 months I was general counsel to the House Small Business Committee, at the time a subcommittee of that committee held probably the longest and most lengthy, and in depth studies of this very issue, the effect of oil imports on independent producers, that has ever been held by a committee of this Congress.

I am not professing to be an expert, but I do know a little something about this background. I know also, having worked for a congressional committee, it does well to let us look into the reasoning behind the proponents' views.

Let us for a moment review the record of the principal proponents of rigid oil import restrictions. The Independent Producer Association of America (IPAA), together with many officials of State regulatory bodies, have been howling since 1929 for oil import restrictions. Congressional hearing records are reeking with their claims that unless imports were curtailed, the independent producer segment, including the stripper well operators, faced a tragic and disastrous demise. Until the late 1950's, no restrictions of significant importance were imposed.

Despite these prophesies of doom and disaster, doom and disaster never came for these proponents. They continued to get richer and more affluent with each succeeding year. In the late 1950's, the President saw fit to impose restrictions and those restrictions still obtain.

In brief, the past history of the indepedent producers and State regulatory officials as prophets, is not such as to warrant their current predictions of disaster being given too much weight. This is particularly true since we already have a system which restricts oil imports.

The private brander definitely feels that more rigid restrictions which do not provide import allocations for this type of marketer will compound our existing problem of supply at reasonable prices. We have learned from bitter experience that when supply, either locally or nationwide, is short, the supply for the private brand marketer is the first to be cut.

The major suppliers first take care of their commercial consumer and "branded" accounts, and if any quantity is left over, the private brand marketers must scramble to get it. There is the further proposition of independent or small integrated refiners being adversely affected by inequitable import restrictions. When this category of refiners encounters tight supplies of crude oil, the private brander is hurt because this type marketer is one of the principal outlets for the small refiners' gasoline sales.

The provisions contained in S. 2332 would produce a very dangerous and unusual situation. If import restrictions are related to domestic production, this in essence vests in the various State oil regulatory bodies the power of controlling available supplies of crude oil to meet national demands. Since when do we vest in State regulatory bodies the right to control the purposes of Federal legislation?

Since when do we vest in State regulatory bodies the right to absolutely control the national supply of crude oil and products when such bodies have a local economic purpose in mind which quite often is not to the best interests of the overall economy?

The domestic crude-oil-producing segment defies all natural laws of economics because of built-in protections. A classic example was the situation created by the gasoline wars which raged throughout the country from 1960 to 1965.

Even though the price of gasoline dropped, in many instances, below the price of the crude oil from which it was produced, the price of crude oil instead of going down, remained constant. Another peculiar thing during this era was the fact that the principal, integrated oil companies enjoyed ever-increasing profits and the brunt of the price wars was borne by the private brand marketer. During this era many private branders sold out to major companies or were forced to become branded outlets in order to receive price-and-supply protection.

This bill in the preamble states that it is designed to promote, among other things, the foreign policy of the United States. We predict that if this bill passes in its present form, we will completely alienate those foreign sources of crude oil wherein American nationals now have producing rights. For the Congress to recognize Canada and ignore Venezuela, with whom we have a sacred contract by way of a trade agreement, would be the straw that breaks the camel's back and might well result in nationalization of the crude-oil-producing industry in that country, as well as other countries in the Middle East. If such were done, God help the Port of Savannah.

All of this at a time when our foreign relations are at the lowest ebb in our national history.

It is for these foregoing reasons that we feel compelled to oppose S. 2332 or any other bill which would legislatively impose restrictions on crude oil and its products. I repeat, that is legislatively impose. If, however, the Congress in its wisdom sees fit to legislate import restrictions to help independent producers, we humbly plead that such legislation include specific provisions which will give the private brand independent marketer the right to import allocations of gasoline so as to better insure their source of supply at reasonable prices.

My people are just a little fed up with import restrictions to help independent producers when the independent marketer is left in the cold.

I thank you gentlemen for your time and attention.

(The complete statement of Mr. Ellis, together with the attachments, above referred to, follow:)

STATEMENT OF THE SOCIETY OF INDEPENDENT GASOLINE MARKETERS OF AMERICA

(By Otis H. Ellis, Legislative Counsel)

My name is Otis H. Ellis. I maintain law offices at 1001 Connecticut Avenue, Washington, D.C.

I appear here today on behalf of the Society of Independent Gasoline Marketers of America (SIGMA). This is a trade association whose membership consists of independent gasoline marketers that sell gasoline under their own "Private Brands" as distinguished from the brand name of a supplier. These marketers are oftentimes referred to in the industry as "Private Brand Marketers." Private Brand Marketers operate thousands of gasoline service stations in the United States through which they sell several hundred million gallons of gasoline, annually. This type of marketer is considered by some to be the principal competitive force in the retail gasoline market.

The Private Brand Marketer occupies the most tenuous position of any type marketer of petroleum products. This is due to the fact that he operates under his own brand flag and does not have the protection of a branded supplier either from the standpoint of price protection or guarantee of adequate supplies—both protections are enjoyed by branded wholesalers and branded retailers. From a competitive standpoint, this is a precarious position which has been getting worse for the past several years, due to the fact that this marketer who once had many sources of supply, is now faced with the severe problem of having relatively few sources of supply available to him at prices which will permit him to function competitively in the market place and make a reasonable profit. All industry trends indicate that this situation will get worse rather than better and this is particularly true if oil imports are further restricted.

The continued existence of this Independent Gasoline Marketer depends on two basic necessities. First, he must have multiple, competitive sources of gasoline supply at prices which enable him to be competitive and return a reasonable profit. Second, there must be *completely adequate* supplies of gasoline available to *all* local markets in the United States. The national inventory of gasoline might reflect adequacy to meet total national demands, but be so located as to produce a shortage or "tight" supply situation for many local markets. Anything which adversely affects source of supply, adequacy of supply to all local markets, procurement price, or competitive retail prices is of vital concern to this type of marketer. This Independent Marketer is therefore seriously concerned about rigid restrictions on imports of crude oil and its products, since we know from experience that such restrictions, particularly if little or no fluctuation is permitted, adversely affect these items of concern.

Attached hereto is a copy of SIGMA's policy position on oil import restrictions. A thumbnail digest of this position is as follows: SIGMA basically opposes governmental restrictions on the free flow of commerce in any article or commodity. We recognize, however, that the current over-supply of crude oil and products in world markets poses a serious threat to our domestic oil production segment, and particularly the independent producers in that segment. For this reason we temper our basic belief and feel that some form of restrictions are needed. We believe, however, that such restrictions should be permitted to fluctuate more broadly than the limitations provided in S. 2332 which seeks to impose a 12.2 per cent ratio of imports to domestic production of crude oil and natural gas liquids in Districts I–IV. We believe that the current method of imposing quotas by the Department of Interior is not perfect and contains many inequities. However, we feel that this general method which permits import fluctuations up and down is better than the rigid provision contained in S. 2332.

Let us for a moment review the record of the principal proponents of rigid oil import restrictions. The Independent Producer Association of America (IPAA), together with many officials of State regulatory bodies, have been howling since 1929 for oil import restrictions. Congressional hearing records are reeking with their claims that unless imports were curtailed, the independent producer segment, including the stripper well operators, faced a tragic and disastrous demise. Until the late Nineteen Fifties, no restrictions of significant importance were imposed. Despite these prophesies of doom and disaster, doom and disaster never came for these proponents. They continued to get richer and more affluent with each succeeding year. In the late Nineteen Fifties, the President saw fit to impose restrictions and those restrictions still obtain. In brief, the past history of the independent producers and State regulatory officials as prophets, is not such as to warrant their current predictions of disaster being given too much weight. This is particularly true since we already have a system which restricts oil imports.

The Private Brander definitely feels that more rigid restrictions which do not provide import allocations for this type of marketer will compound our existing problem of supply at reasonable prices. We have learned from bitter experience that when supply, either locally or nationwide, is short, the supply for the Private Brand Marketer is the first to be cut. The major suppliers first take care of their commercial consumer and "branded" accounts and if any quantity is left over, the Private Brand Marketers must scramble to get it. There is the further proposition of independent or small integrated refiners being adversely affected by inequitable import restrictions. When this category of refiners encounters tight supplies of crude oil, the Private Brander is hurt because this type marketer is one of the principle outlets for the small refiners' gasoline sales.

The provisions contained in S. 2332 also would produce a very dangerous and unusual situation. If import restrictions are related to domestic production, this in essence vests in the various State oil regulatory bodies the power of controlling available supplies of crude oil to meet national demands. Since when do we vest in State regulatory bodies the right to control the purposes of Federal legislation? Since when do we vest in State regulatory bodies the right to absolutely control the national supply of crude oil and products when such bodies have a local economic purpose in mind which quite often is not to the best interests of the overall economy?

The domestic crude oil-producing segment defies all natural laws of economics because of built-in protections. A classic example was the situation created by the gasoline price wars which raged throughout the country from 1960 to 1965. Even though the price of gasoline dropped, in many instances, below the price of the crude oil from which it was produced, the price of crude oil instead of going down, remained constant. Another peculiar thing during this era was the fact that the principal, integrated oil companies enjoyed ever-increasing profits and the brunt of the price wars was borne by the Private Brand Marketer. During this era many Private Branders sold out to major companies or were forced to become branded outlets in order to receive price and supply protection.

This bill in the preamble states that it is designed to promote, among other things, the foreign policy of the United States. We predict that if this bill passes in its present form, we will completely alienate those foreign sources of crude oil wherein American nationals now have producing rights. For the Congress to recognize Canada and ignore Venezuela, with whom we have a sacred contract by way of a trade agreement, would be the straw that breaks the camel's back and might well result in nationalization of the crude oil producing industry in that country, as well as other countries in the Middle East. All of this at a time when our foreign relations are at the lowest ebb in our national history.

It is for these foregoing reasons that we feel compelled to oppose S. 2332 or any other bill which would legislatively impose restrictions on crude oil and its products. If, however, the Congress in its wisdom sees fit to legislate import restrictions to help independent producers, we humbly plead that such legislation include specific provisions which will give the Private Brand Independent Marketer the right to import allocations of gasoline so as to better insure their source of supply at reasonable prices. We simply are fed up with import restrictions to help independent producers when the Independent Marketer is left in the cold.

Import Policy Position of the Society of Independent Gasoline Marketers of America

The Society of Independent Gasoline Marketers basically opposes the government's imposing restrictions on the free enterprise system. We know from experience that restrictions breed more restrictions and oftentimes severe inequities.

We recognize, however, that in the complex Petroleum economy, both domestic and foreign, that such general views sometimes must be tempered with exceptions in order to better preserve our national security and the place of the independent small businessman in all segments of the industry—production, refining and marketing.

Theoretically, an unrestricted flow of petroleum imports might be desirable for many reasons and might even be practical under certain conditions. Under *current* conditions in the world and domestic petroleum markets we believe that unrestricted imports would be disastrous both to the domestic market and the purpose of maintaining a strong domestic industry for use in case of national emergency. We therefore endorse, and will support, oil import restrictions which are designed to maintain and preserve a healthy but competitive domestic industry. We will vigorously oppose such restrictions or relaxation of restrictions that would give to any individual, company or category of importers the opportunity to take undue advantage of others in the marketplace who do not have like advantages. Import restrictions, or regulations implementing such restrictions, must always produce results which reflect the needs of vigorous independent producers, independent refiners and independent marketers. Equity in the domestic marketplace not importing history should be the guideline for allocating import quotas. Those charged with the responsibility of imposing restrictions and establishing quotas must always keep in mind that the common denominator for integrated crude oil producers with lavish domestic tax benefits on drilling and production as well as the added tax benefits which accrue from royalties, participating profits and alleged "taxes" paid to foreign governments, is not the same common denominator that can equitably be applied to these independents.

In view of the current supply problem faced by the Private Brand Marketers and pursuant to the foregoing import policy statement, SIGMA recommends that the existing import regulations be amended so as to provide for import allocations being granted to independent marketers of petroleum products.

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

Any questions, Senator?

Senator BENNETT. No; thank you.

Senator TALMADGE. Thank you for your appearance.

(Following are communications received by the committee expressing an interest in the preceding subject:)

U.S. SENATE,
COMMITTEE ON ARMED SERVICES,
Washington, D.C.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: I am writing to express my oppositon to a provision of S. 2332, a bill concerning the oil import quota control program which you recently introduced. The provision I am writing about would have the effect of eliminating a large source of jet fuel used in international flights.

Because of Hawaii's geographic location, air passenger and air cargo operations play an important part in the economy of my State, Hawaii has also developed into an important stopover point for a number of international flights.

If the importation of bonded jet fuel is to be progressively reduced as noted in Section (g) of S. 2332 and if bonded jet fuel is to remain included in the classification of "imports for consumption" as presently defined by the Bureau of the Census, this prohibition on bonded jet fuel would adversely affect the Hawaiian economy as the following figures indicate.

The ratio of bonded fuel to the total fuel required in 1968 by the airlines in all of the United States is 19.2 percent. In District V this ratio is 27.3 percent. In Hawaii alone, the total bonded fuel dispensed by all suppliers from January to September 1967 was 151,074,000 gallons, whereas the total fuel supplied (bonded and domestic) was 240,327,000 gallons. In other words, 62.9 percent of the total fuel dispensed in Hawaii during this period was bonded. It is clear that if a curtailment in the use of bonded jet fuel does result, Hawaii will be affected more than any other area in the United States.

I understand further that the airlines industry is currently experiencing difficulties in obtaining jet fuel in the United States. If the proposed curtailment was imposed upon carriers engaged in international flights, the jet fuel shortage in the United States would be heightened further resulting in a probable curtailment of flights and an increase in air fares.

I am fully aware of the necessity for the oil import control program for national security considerations, but I am concerned about the effects the curtailment of the use of bonded jet fuel would have on Hawaii's economy. Your consideration of these factors would be most appreciated.

Sincerely,

DANIEL K. INOUYE, *U.S. Senator.*

(The statement of Senator Monroney, submitted by Senator Harris, follows:)

STATEMENT OF HON. A. S. MIKE MONRONEY, A U.S. SENATOR FROM THE STATE OF OKLAHOMA, ON IMPORT CONTROL LEGISLATION

Mr. Chairman and distinguished members of the Committee, I will be very brief as I know these hearings are being held under an extremely tight time schedule.

As a co-sponsor of legislation to strengthen import controls on oil, beef, and dairy products, I wish to commend the Committee for scheduling these important hearings. This is an area that certainly deserves thorough and careful review.

Cattlemen in my state reported a return on investment of less than 1% last year and claim that their biggest problem was the fluctuating volume of meat imports. Dairy farmers in Oklahoma are in a desperate situation because of low prices. Increased efficiency in the operation of each of these industries has not been enough to offset the sharp jump in production costs. Help is definitely needed.

During the past eight years the strength of the domestic oil industry has continued to decline. There has been a steady decrease in exploration efforts and many drilling contractors and small independent producers have been eliminated completely. In my own state of Oklahoma, rig activity is at its lowest point in 23 years.

This decline in exploration is a matter of deepest concern to me. If we do not find new reserves to replace those which are being depleted, the security of this Nation is in danger. The crisis in the Middle-East should make it absolutely clear that this country cannot become dependent upon foreign sources for its energy needs.

I would like at this point to place in the record a concise summation of the great problems facing the independent oil producer which was prepared by the Oklahoma Independent Petroleum Association. I shall not ask to read it in order to conserve valuable time. I urge that it be given careful consideration by the members of the Committee.

Thank you for allowing me to appear here this morning.

STATEMENT OF OKLAHOMA INDEPENDENT PETROLEUM ASSOCIATION

The Oklahoma Independent Petroleum Association represents the majority of independent oil men in Oklahoma. The independent segment of the oil industry in our state is struggling for survival. Although we, today, are producing at the greatest rate since the Near East Crisis in 1957, we are producing from reserves discovered 20 odd years ago—not from new discoveries. About 45% of the oil produced in Oklahoma is produced from secondary recovery. Incentives must be found to reverse this trend and reestablish the proper proportions of primary production to secondary.

Our labor costs, in direct competition with other industry in our state, have risen on an average of 27% since 1959; materials we utilize have increased on an average of 24% during this period; well servicing contractors have been forced to increase their charges on an average of 56% during this same interval. Although precentage-wise Oklahoma has historically been the most successful of any of the states in exploratory drilling, the number of drilling rigs running in Oklahoma on March 10, 1967 was at the lowest level in many years—just 88. A small token of price restoration of crude oil was given last year in an 8¢ increase, but even so our entire source of income today is selling for less than it did in 1957.

Historically the independent in Oklahoma has discovered the lion's share of the new reserves, but now he is fighting to stay alive by producing from present reserves, selling out to the integrated oil companies, consolidating and merging, or abandoning his wells and going out of business. He most certainly is not finding the new oil required for our national security because his costs are up substantially, while the oil is down. The high net profit increases currently being enjoyed by the major oil companies, resulting in a large part from their foreign oil, are not being shared by the independent producer who produces from within the United States.

The Mandatory Oil Import Program was adopted and put into effect by the Executive Branch of our Government for the purpose of maintaining our national security. Whenever our country has to depend more and more on foreign sources of supply for any commodity vulnerable to attack in times of emergency, our national security and defense is weakened. The very branch of government which brought the oil import program into being for the good of our security has allowed, in recent years, certain procedures and special treatments to come into being which undermine and weaken the very program designed to maintain our national security.

These include:

1. The use of estimating procedures which has caused repeated overages of oil imports from Canada.

2. The increased importation of products from Puerto Rico, the Virgin Islands and other sources.

3. Imports outside of the program such as bonded jet fuel, the establishment of foreign trade zones and other proposals to enlarge imports for petrochemical plants outside the United States.

4. Special treatment for imports of asphalt and asphaltic contents of imported oils.

The Oil Import Program has been weakened and placed in jeopardy by the use of these loopholes and procedures which circumvent the intent of the program. We believe the Executive Branch has failed in its administration of the program to assure an adequate reserve within the Continental United States for use in case of a national emergency.

Because so many states are affected by the oil industry, and because the whole economy and freedom of our country could be placed in jeopardy, the OIPA strongly believes that legislation is imperative to tighten up the United States Oil Import controls program and, therefore, recommends passage of S.B. 2332.

U.S. Senate,
Washington, D.C.

Hon. Russell B. Long,
Chairman, Senate Committee on Finance,
Senate Office Building, Washington, D.C.

Dear Mr. Chairman: In connection with your bill, S. 2332, I am enclosing a copy of a letter from a constituent in Hawaii who points out that the bill could have "disastrous" effect for Hawaii if the legislation leads to an absolute prohibition of use of bonded turbine fuel on international flights of U.S. flag carriers.

Mr. Kenneth F. C. Char, President of one of the two local scheduled airlines serving interisland within my State, points out in his letter that, from January to September this year, 62.9 per cent of the total aircraft fuel dispensed in Hawaii was bonded. Mr. Char concluded, "It is clear, therefore, that fuel rationing, if it does come, will affect Hawaii more than any other area of the United States."

Air transportation is the sole means of passenger transport among the populated islands of my State. There are no interisland highways and no interisland passenger ships. Furthermore, more than 90 per cent of Mainland-Hawaii passengers go by air. These facts underscore the critical dependence of the people of Hawaii on air transport and on a dependable supply of jet aircraft fuel.

I am calling this situation to your attention and to the attention of Committee members so that provision can be included in S. 2332 to allow for Hawaii's special needs.

With kind regards and aloha,

Sincerely yours,

Hiram L. Fong,

ALOHA AIRLINES, INC.,
Honolulu, Hawaii.

Hon. HIRAM L. FONG,
U.S. Senate, New Senate Office Building,
Washington, D.C.

It has come to my attention that Senator Long of Louisiana is currently conducting Senate Finance Committee hearings in Washington in connection with Senate Bill S-2332. This could lead to the absolute probition of the use of bonded turbine fuel on international flights of U.S. flag carriers. If this were to become law, it would not be in the public interest and would be disastrous for Hawaii.

As a member of the Board of Directors of the Air Transport Association, I have been keenly aware, for some time, of the growing shortage of turbine fuel available in the free world. As a matter of fact, Aloha Airlines is presently in contract negotiations with petroleum companies, and this shortage is already reflecting itself in higher costs to us. But, the problem is broader and more important than a mere price increase to Aloha Airlines. Unless bonded turbine fuel is permitted on international flights of U.S. flag carriers, there is certain to be a rationing of fuel because there simply is not enough domestic supply to meet the demand.

There will be much testimony, I am sure. It is not my purpose, therefore, to deluge you with figures, at this time. However, in a few words, my appraisal, based on reliable ATA and other industry data, is as follows:

> The ratio of bonded fuel to the total fuel required in 1968 by the airlines in all of the United States is 19.2 percent. In District Five, which includes the West Coast and Hawaii, this ratio is 27.3 percent. In Hawaii alone, however, the total bonded fuel dispensed by all suppliers from January to September 1967, was 151,074,000 gallons, whereas the total fuel supplied (bonded and domestic) was 240,327,000 gallons. In other words, 62.9 percent of the total fuel dispensed in Hawaii during this period was bonded. It is clear, therefore, that fuel rationing, if it does come, will affect Hawaii more than any other area of the United States.

I hope you will do all possible to prevent a prohibition of the use of bonded fuel which, at this time, is so vital to our industry and our economy.

Please do not hesitate to call on me if I can provide any additional information.

KENNETH F. C. CHAR.

TESTIMONY OF HON. GARNER E. SHRIVER, A U.S. REPRESENTATIVE FROM THE STATE OF KANSAS, ON S. 2332

Mr. Chairman, Members of the Committee, my name is Garner E. Shriver, and I appear before you today in behalf of the people of the State of Kansas and particularly my constituents in the 4th Congressional District of Kansas.

I am sure I need not remind this Committee that there is no commodity more important to the national security than petroleum. On many occasions over the past decade, experience has shown time and time again that the United States is the only completely reliable and adequate source of petroleum for this nation's needs in time of crisis and conflict. The recent Middle East crisis has once again shown the importance of having a readily available supply of oil in this country to meet the needs of this nation and also to help supply the oil requirements of other friendly nations during the time of this crisis.

Your Committee has been furnished by other witnesses with adequate facts and statistics which show that during the past decade this nation's petroleum producing industry has been going downhill. These declining trends are cause for genuine alarm. In my own State of Kansas the oil producing industry is largely made up of the smaller elements in the oil industry. Due to this the declines that have take place in the oil producing industry during the past decade have been particularly hard on Kansas independent oil and gas producers. As a result, a large percentage of them have had to give up and quit the business. This has hurt the overall economy of my State, as well as the harm that has been done to our nation's security.

The serious conditions existing in the domestic petroleum producing industry are well-known to this Committee and likewise to the Executive Branch of our Government. The Department of the Interior, which is the Department closest to the overall situation with respect to petroleum, stated in its in-depth study of the petroleum producing industry, published in January, 1965:

"... what has been done since 1956 to find new supplies of oil, whether through new discoveries or through increasing recovery rates of old deposits, *has not been enough* to provide a sound basis for future growth." (Italic added).

We are all well acquainted with the Mandatory Oil Import Program and recognize that it has done much to help in the maintenance of a healthy domestic petroleum industry. Without it the industry would indeed be in a state of chaos today. However, even with this Program, in my State of Kansas the following adverse developments have taken place:

1. The number of rotary rigs operating in Kansas is down from 169 in 1956 to 54 in 1966. (Down—68%).

2. The number of exploratory wells drilled has declined from 1,907 in 1956 to 924 in 1966. (Down—52%).

3. The total number of employees in oil and gas production has changed from 15,825 in 1956 to 11,100 in 1966. (Down—30%).

4. New crude oil reserves found in Kansas in 1956 amounted to 118,702,000 barrels. In 1966, 77,265,000 barrels were found. (Down—35%).

5. Proved crude oil reserves in Kansas as of December 31, 1956, amounted to 992,211,000. In 1966 such reserves had been reduced to 726,429,000. (Down—27%).

6. The selling price of crude oil per barrel in Kansas in 1957 was $3.01. In 1966 it averaged $2.95. (Down—2%). This has occurred while the cost of finding oil has increased substantially.

This is a serious situation and I believe that it is the responsibility of Congress to take the necessary action to reverse these adverse trends which, as I have mentioned, are taking place not only in the State of Kansas, but in all of the more than 30 oil producing States. This nation can ill afford to have this basic national security industry go down the drain.

Therefore, I wish to commend this Committee for holding these hearings so that the true facts can be laid on the record. I commend Chairman Long and his 28 colleagues who joined him in introducing S. 2332. Over on the House side, I have joined with 46 of my colleagues in introducing similar Bills in order to strengthen the present Oil Import Program. This legislation is non-controversial, as I see it, because the Bill would, for the most part, simply write into statutory law the present Oil Import Program.

It is quite well-known that there are now pending before the Department of the Interior many applications for changes in the Program which, if approved, could lead to a complete dismantling of the Program and thus further aggravate the already serious conditions existing in the domestic petroleum producing industry. This legislation indeed is required to firm up the hand of those administering the Oil Import Program. Without this legislation I am fearful that the many pressures now being brought to bear on the Secretary of the Interior will make it very difficult for him to do what he has so often stated, namely, maintain the 12.2 ratio of imports of crude oil into District I–IV.

Once we allow this Program to be used as a palliative for all of the alleged ills that come along, such as the air pollution problem, the economic problems in Puerto Rico, the economic development of the Virgin Islands, the balance of payments problem, etc., we will soon eliminate the basic reason for the Program—*our nation's security*.

Accordingly, I earnestly recommend that your Committee act favorably on S. 2332. I sincerely believe that the adoption of this proposed Bill will aid materially in the maintenance of a strong domestic petroleum producing industry, so necessary to the welfare of all of our citizens.

STATEMENT OF HON. GEORGE E. SHIPLEY, A U.S. REPRESENTATIVE FROM THE STATE OF ILLINOIS

Mr. Chairman, it is a privilege to appear here today to testify with respect to the consideration of import control for oil before the Congress.

Mr. Chairman, the Secretary of the Interior has submitted to your committee a brief history of the oil import program and I think it is enough to say here that the underlying theme of this program is self-sufficiency of domestic crude oil in time of emergency. It is apparent that the program was designed to prevent us from drifting into a growing dependence on foreign oil. The recent Mid-East crisis point up that the basic objectives of the import control program was once again put to test. The large and growing U.S. market has been and is shared with other oil producing countries particularly those of the Western Hemisphere. A good reason for solid and well established rules well understood to insure stability and orderly development.

The steady expansion of investment and profits of the domestic industry shows it to be healthy and vigorous. This fact was pointed out in the Department of the Interior study in 1964. The data developed by that study revealed that our greatest problem is that of insuring that reserves are adequate to meet the greater expanded requirements of future years. Thus, the Government experts estimate that five billion barrels of liquid hydrocarbons must be added each year if domestic producers are to hold historic reserves to production ratio in the next fifteen years and through 1980. The fact that domestic producers have elected not to pursue the acquisition of reserves any more agressively than they have should not necessarily obscure the fact that it is within their means to do so. What the producers lack is incentive.

It can be fairly assumed that the import control program has been a good instrument in upholding posted prices for domestic crude oil and to this extent has prevented the burden of price declines from further discouraging exploration activity. Import controls are an excellent feature of any program designed to provide incentives for discovery and development of petroleum reserves. It can be employed successfully as has been done in the present case to give some stability to markets and lend a tone of stability to the economic environment in which company officials project their plans for future operations. But is this all they can do?

Since 1956, exploration emphasis has been directed mainly to deep drilling and offshore areas such as the Gulf of Mexico and Alaska. To date, these costly ventures have not proven-up adequate reserves for all our future requirements. It is not easy for exploration departments to sell their management on drilling a prospect with a small reserve potential in the face of today's rising costs. For this reason, exploration has been diverted away from the smaller, shallower and less expensive onshore prospects.

In all of its studies and actions during the last decade, the Federal Government has paid little attention to the shallower onshore reserves. The present import program recognizes the importance of the small refiner and provides him a preferred position in the quota allocation system. In general, small independent refiners represent a dispersed and decentralized refining capacity of critical importance to national defense.

The import program should provide in some way the incentive necessary in support of developing onshore reserves. I think that we all recognize that in this world of tension such situations which are brought on by the hostilities in the Middle East makes it necessary that we have a domestic industry capable of producing substantial additional supplies of petroleum for prolonged periods on short notice. The key to sustain production capacity is adequate reserves. I am deeply concerned about the nine year decline of domestic crude oil reserves. Our nation, to remain a leader in economic world affairs and maintain military supremacy, must reverse this downward trend. I support any legislative or administrative effort which will promote the exploration and development of domestic petroleum reserves.

Statement Submitted to Senate Finance Committee by Hon. Silvio O. Conte, a U.S. Representative From the State of Massachusetts, Concerning Proposed Import Quota Legislation

I want to first express my appreciation to the distinguished Chairman of this Committee, Senator Russell Long, and to his distinguished fellow Committee members for affording me this opportunity to present testimony. I would like to address my remarks to Senate bill S. 2332, introduced by Senator Long and cosponsored by many of his colleagues, and particularly to the devastatingly harmful effects with respect to Number 2 fuel oil that would result from passage of this legislation.

Number 2 fuel oil is used to heat more than three quarters of the homes in the New England area. In my home state of Massachusetts alone some two million gallons were used last year. If ever an item fell within the meaning of "a necessity of life" this commodity does. I don't know how many of you gentlemen have spent time in New England during the winter, but it gets pretty cold up there.

Mr. Chairman, there is today a clear and critical shortage in this country of Number 2 fuel oil. This has resulted in the highest price increases in history to dealers throughout New England ranging from between ten and fifteen percent over last year's costs.

The major reason for this shortage, furthermore, is not the lack of available crude oil in the hands of domestic producers. Ratuer it is due to the fact that the major oil companies are not interested in refining and are not marketing the amounts of Number 2 fuel oil needed for consumption.

The reason for this lack of interest is a simple one—there are various other products which they can make from the crude oil, such as jet fuel and gasoline which will give them far greater profits than they receive from the processing of Number 2 fuel oil.

As I have said, this is a simple reason and a compelling one for producers to concentrate on other products and ignore Number 2 fuel oil.

Nevertheless, the facts remain that this commodity is of absolute necessity to hundreds of thousands of people in this country.

Given this set of circumstances, the alternative seems clear. We must turn to other sources of supply for our Number 2 fuel oil.

More Number 2 fuel oil in finished product must be imported into this country.

One way of accomplishing this today exists under our present guidelines and quotas.

Of the 76,000 barrels of oil which are permitted to be imported each day (which figure is based on 1957 levels of import) some 30,000 barrels are allocated to the Defense Department for their use. The Defense Department has not been using this allotment and the result has been to severely limit the amount of "finished product" barrels coming into this country. The Defense Department allocation should be freed up and made available for public consumption as long as the Defense Department does not have the need or desire to use it. This would significantly increase the supply of Number 2 fuel oil in this country, and it should be done immediately.

However, this will just be a short-range solution to this critical problem. The demand for Number 2 fuel oil is going to continue increasing in this country while the desire on the part of oil producers to make it will continue to decrease.

Unless appropriate steps are taken, we are not going to have the necessary fuel oil to heat the innumerable homes that depend on it.

We therefore are going to have to liberalize our import quotas as they apply to Number 2 fuel oil.

S. 2332, on the other hand, would not only prevent this necessary liberalization, it would reduce and no doubt eventually eliminate importation of Number 2 fuel oil.

S. 2332 would freeze the present quotas which were based on 1957 levels and which are obviously unrealistic today. Furthermore, S. 2332 calls for *progressive reduction* of "finished product" imports and no doubt ultimately envisions their complete elimination.

The facts, I believe, clearly demonstrate the inappropriateness of this approach. We must have more number 2 fuel oil than we are presently getting in this country and we are going to have to import it in order to get it. This will not be possible if S. 2332 becomes the law of the land.

Before concluding, let me point out one further fact. Much has been said during these hearings about national defense needs and requirements as they relate to oil and oil products.

Secretary of the Interior, Stewart Udall, testified before this committee on October 18 as follows: "I would like to state here, my firm view that in the present world petroleum situation, oil imports should be controlled in the interests of our national security. That is the paramount—the only—reason why such imports are controlled."

Our military today uses ten percent of the domestic oil produced.

Number 2 fuel oil, however, does not fall within this military need nor does it fall within any national security or national defense need of this country.

Let me once again thank Chairman Long and the rest of the members of this Committee for providing me with the opportunity to present this testimony.

STATEMENT OF HON. STAN HATHAWAY, GOVERNOR OF WYOMING

Mr. Chairman, my state, Wyoming, is vitally interested in the health and strength of the petroleum producing industry. Almost fifty percent (50%) of the total land area of the state is under lease to the oil and gas producing industry. Last year almost seventy-eight percent (78%) of the money from mineral production in Wyoming came from the sale of crude oil and natural gas—some $391,087,000. More than ten thousand employees are engaged in the crude oil and natural gas production in my state and in the marketing of these important products. This is a significant percentage of Wyoming's population. The contribution of the petroleum-producing industry is important to the economic welfare of Wyoming, as well as to the entire Rocky Mountain area. Thus, we are vitally concerned with our governmental policies which directly affect this important industry.

One basic policy which I consider important to the health and strength of our domestic oil and gas producing industry is the Mandatory Oil Import Program. This recognized national policy has done much to help maintain a domestic petroleum producing industry.

However, even with this program, Wyoming has witnessed many advance trends taking place over the past decade. For example:

(1) Total employees in oil and gas production:
1957: 6458
1966: 5442 (down 15.7%)

(2) New crude oil reserves found in Wyoming:
1957: 166,076,000 barrels
1966: 38,065,000 barrels (down 76.7%)

(3) Proved crude oil reserves:
December 31, 1957: 1,419,718,000
December 31, 1966: 1,072,523,000 (down 24.5%)

(4) Price of oil per barrel in Wyoming
1957: $2.66
1966: $2.56 (down 3.8%)

(5) The over-all costs of drilling a well, labor and materials, have gone up subsubstantially in this ten-year period.

Along with these advance trends are more and more threats to the Mandatory Oil Import Program. More and more people are trying to use the program for things for which it was not intended. Attempts are constantly being made to erode the national security purpose of this program. The new pending threats to the program in the form of opposition to circumvent progress causes much uncertainty. This in turn discourages the necessary search for new oil and gas reserves.

For these reasons, I and my colleagues at the Western Governors' Conference, meeting at West Yellowstone, Montana, adopted the following Resolution which pretty well sets forth the feelings of my state, the Rocky Mountain States, and the balance of the Western States making up the Western Governors' Conference. It reads:

"Whereas, The Mid-East crisis demonstrated the necessity of a healthy and adequate domestic oil industry; and

"Whereas, The Mandatory Oil Import Program was authorized by the Congress and established by Presidential proclamation in 1959 for the express purpose of assuring adequate domestic oil supplies for national security; and

"Whereas, The program has been and is being used for purposes not directly related to or consistent with this stated purpose—such as the promotion of foreign economic interests, individual companies and the control of prices for crude oil and refined products; and

"Whereas, Recent proposals from the Oil Import Administration of the Department of the Interior would be an even further departure from the stated purpose of the program—that of assuring a healthy domestic oil industry; and

"Whereas, There has been a sharp decline in exploration and drilling activity of the American petroleum industry, which has directly and adversely affected the economies of the 13 Western States and the welfare of their citizens; and

"Whereas, Further exemptions of certain imports and preferential treatment under the program will result in serious damage to the integrity, stability and effectiveness of the Mandatory Oil Import Program and subsequently to the American domestic petroleum industry;

"Now, therefore, be it resolved, That the 1967 annual meeting of the Western Governors' Conference at West Yellowstone, Montana, expresses opposition to any action which will weaken, undermine or circumvent the original intent and stated purpose of the Mandatory Oil Import Program, and

"Be it further resolved, That the Western Governors' Conference urge the United States Congress to take resolute and immediate action to insure the stability and integrity of the Mandatory Oil Import Program."

You will note that we Western Governors have recommended that the United States Congress take action to insure the stability and integrity of the Mandatory Oil Import Program. Passage of S.F. 2332 would aid materially in accomplishing this goal. If this is done, it will go a long way toward re-vitalizing the petroleum producing industry in my state, the Rocky Mountain area, as well as the other oil producing states of our nation.

STATE OF NORTH DAKOTA,
EXECUTIVE OFFICE,
Bismarck, N. Dak.

Hon. RUSSELL B. LONG,
Chairman, Senate Committee on Finance,
U.S. Senate, Senate Office Building,
Washington, D.C.

DEAR SENATOR LONG: I wish to add my support to those who seek passage of S. 2332. I believe this legislation is increasingly urgent if our domestic crude oil industry is to continue its program of maintaining this nation's reserve.

Excessive imports of crude oil would have an adverse effect on crude oil exploration and reserve development in our state.

Sincerely,

WILLIAM L. GUY, *Governor.*

STATEMENT OF NORTH DAKOTA GOV. WILLIAM L. GUY

As Governor of the State of North Dakota I urge adoption of Senate Bill 2332 as legislation needed to strengthen our domestic petroleum industry and provide an incentive to promote increased exploration efforts that must come if we are to provide the reserves necessary to assure our security without dependence upon foreign supplies that have just been demonstrated are unavailable to us when they are needed.

We believe the legislation as proposed by Senator Long is very little different from the intent of the present mandatory Oil Import Program. The one notable exception is that by adopting this bill the program will have a long range stability not possible under the present Oil Import Policy. The depth necessary to drill exploratory wells to find new reserves is constantly increasing. In addition, expenses which are a part of the oil operator's cost have continued to rise in price. This plus the fact that new reserves are becoming ever increasingly hard to find makes it appear to me that if we are to expect the investment of funds for exploratory efforts necessary to provide us with reserves to assure our nation's security we must take steps to create a confidence in the Oil Import Policy that does not exist at this time. Especially is this so with the independent oil producer who traditionally has borne the brunt of the wildcatting effort so vital to the assurance of adequate oil reserves, and does not have the profits of foreign production to aid his economic position.

In the State of North Dakota the average well investment can be expected to be recovered in a period of four to five years. Unless the oil operator who must make this investment in a high risk business can be assured of continued protection from foreign imports in the market place for the period of time it takes to recover his investment, he is not likely to continue making it.

If Senate Bill 2332 was adopted, it would further alleviate the constant pressure on the administrators of the program by those seeking special treatment or exceptions from its provisions. We realize there are good advantages to increasing trade with our Canadian neighbors to the north; however, when actual crude imports into District I–IV exceed estimates, which are used to formulate allowable of overall foreign imports, by 50,000 barrels per day, it has certain harmful effects. Use of actual import figures in formulating allowables as provided in the proposed bill appears desirable. Likewise, there may be advantages in using the import program to help solve economic ills of Puerto Rico and the Virgin Islands

by providing foreign trade zones, or aiding competitive problems of the petro chemical industry by increasing their quota; however, providing confidence in government to the oil producer who takes far greater risks is more important in my opinion to both the nation's security and economy. We might also add that we agree there is need to encourage those things which will aid in the abatement of air pollution, but we certainly doubt the wisdom of allowing special treatment under the Import Program to help accomplish this goal.

I am quite confident that the Long bill will not provide all the answers needed for the problems now existing in a somewhat depressed domestic oil industry. The bill does, however, correct certain deficiencies and makes the program more meaningful and stable, which is important. All will agree that we must not become dependent on foreign oil for a greater portion of our needs. This means, naturally, that our domestic industry must continue to grow to service our requirements. With the proper incentives it will. Senate Bill 2332 is one of the proper incentives.

STATEMENT OF HON. JOHN G. TOWER, A U.S. SENATOR FROM THE STATE OF TEXAS

Mr. Chairman, distinguished colleagues, there is an urgent need for Congressional action to provide a positive and meaningful oil import policy. The current policy employed by this country is a threat to our national security and to the very existence of a strong domestic petroleum industry.

The primary feature of the proposed legislation is to limit oil imports to a level of 12.2%. This is not a harsh measure, and I do not think that its enactment would at this time be unduly harmful to those interests which are dependent on foreign sources of petroleum.

I feel that the proposed oil import legislation is to our best national interest. Recent developments in the Middle East, not to mention two world wars, the Korean conflict, and the Suez Crisis in 1956, have demonstrated that we as a nation can not be dependent on foreign sources for oil.

However, oil imports in 1967 will exceed our yearly reserve productive capacity. This year 2,600,000 barrels of oil will be imported daily at a period when our effective daily reserve production capacity is estimated at only 2,850,000 barrels.

During the last 10 years the industry has suffered persistent deterioration. Now at a time when a strong healthy domestic oil industry is badly needed we find that it is in danger of being unable to meet the ever increasing requirements of this nation's future growth.

In the last 14 years only 48 million barrels of new reserves have been located in this country. Unless we have a sharp increase in oil exploration we will by necessity be importing 8 million barrels of foreign oil daily by 1985.

As the internal demands are increasing at a tremendous rate we have had almost 40% fewer well completions during the last decade.

Our domestic oil industry must have the incentive to plan long range programs in the development of new reserves. However, under the existing federal import program the purposes and objectives can not now be realized.

SUPERMARINE, INC.,
New York, N.Y.

HON. RUSSELL B. LONG,
New Senate Office Building,
Washington, D.C.

DEAR SENATOR LONG: Thank you for the copies of statements read at the Public Hearings on Import Quota Legislation, October 18, 19, 20, 1967. I was present at the first day's hearings. I could not get into the room the next day. I was interested in your S. 2332, as I have been an oil man since January 1919, for the most part in Latin America and the Middle East rather than the United States. I am sure the Department of Stae is fully familiar with my activities abroad.

It seems to me that there is an awful lot you could do for our domestic oil producers and refiners without being concerned as to whether a few more barrels of oil is imported into the United States, above the 12.2 percent of domestic production, or not. I believe the Secretary of the Interior and the President himself have done fairly well with such a complex industry as oil.

There is, however, room for improvement within the realm of legislation to vitalize our domestic oil industry, particularly the independent sector of oil producers and refiners. The opportunity is there for some one of your prestige and high standing. I make reference to the perennial threat on the part of legislators to encroach on producer's depletion allowance and failure to provide access to adequate loans, particularly to those independent refiners to modernize the obsolescent refineries in order to obtain higher product realization out of a barrel of domestic crude oil processed, present advanced technology permits.

I want to assure you with utmost respect a refiner today can realize as much as $4.50 per barrel of oil processed by modernizing his refinery, instead of the average of $3.90 he now fails to achieve.

Faithfully yours,

YERVANT MAXUDIAN,
President.

SUN OIL CO.,
Philadelphia, Pa.

Hon. RUSSELL B. LONG,
U.S. Senate,
Washington, D.C.

MY DEAR SENATOR: In response to published requests for comments by interested parties to the Senate Committee on Finance, we are pleased to express Sun Oil Company's views on Senate Bill 2332 which concerns aspects of the Trade Expansion Act.

This bill aims to establish as a matter of law that the importation of petroleum into districts I–IV shall not exceed 12.2 per cent of the domestic crude petroleum and natural gas liquids produced in those districts.

Sun Oil has supported for many years and continues to support now the Mandatory Imports Control Program administered by the U.S. Department of Interior. The entire program has served the United States well since it was established by Presidential Proclamation by Dwight D. Eisenhower in 1959. President Kennedy and President Johnson each elected to continue the import program because it was doing the task it had been assigned.

In recent years additional quantities of crude oil have become available around the world. Despite this, the domestic production segment of the U.S. oil industry has not been squeezed out. It has continued to supply the major portion of domestic requirements.

To me, this means that the Department of Interior has taken its assignment seriously to hold total imports at this 12.2 per cent level. When additional quantities of residual fuel were needed, the Mandatory Imports Control Program proved itself flexible enough to modify the program. The administration of the program by the Department of Interior has been responsive to changing oil patterns only after careful study. The domestic oil industry and the consumer have been accorded adequate opportunity to express their opinions on any changes contemplated.

While we at Sun Oil Company have disagreed with the administration of some parts of the program, we believe that the program basically remains balanced and that on the whole the Department of Interior has done its job well. The import program must be responsive to changing conditions and, while we cannot predict what these changes will be, we know that they will occur. Establishing the 12.2 percentage as a matter of law would remove flexibility to the detriment of the entire industry.

We believe that the Bill as written will adversely affect Sun Oil Company in several areas. First of all, the Bill would establish that all imports of petroleum other than crude oil should be progressively reduced. Under this new definition, the synthetic crude oil which is now being produced by a Sun subsidiary, Great Canadian Oil Sands Limited, could be excluded from movement into the United States.

This synthetic crude oil is a mixture of liquid hydrocarbons with a composite gravity of about 40° API gravity. It is not obtained by conventional drilling of an oil well, but is produced by mining and then processing tar sands in Alberta, Canada.

In order to produce this oil, $235 million (Canadian) was invested in a plant near Fort McMurray. This facility was formally dedicated just last month after many years of research to perfect the required technology and the processing ability. The oil produced from the GCOS plant is extremely low in sulfur since this material is removed by special equipment incorporated in the design of the plant. For this reason, the oil is one that is very suitable as fuel in combating air pollution.

Sun believes this project is soundly conceived and represents a source of petroleum vital to both the United States and Canada for their national security. Recent world events as well as World War II have documented the wisdom of having petroleum available in these countries to meet our growing demand.

It has been Sun's practice for some years to exchange products between its refineries at Toledo, Ohio and Sarnia, Ontario, Canada to provide flexibility in its operations to alleviate shortages and overages. As an example, Sun is shipping some #2 furnace oil from Sarnia to Toledo during the present heating season in order to assure that there will be adequate supplies for our customers in the mid-West. We are conscious that under conditions of world stress, a refinery in Canada close to the U.S. border is an important contributor to our mutual national security. Under the proposed Bill, all such product flow between these two points would be eliminated.

It is also proposed by the Bill under review that imports shall not be permitted from Puerto Rico. As you may know, Sun currently has on file with the Department of Interior, an application for crude oil imports into Puerto Rico. These imports would be used to feed a lubricating oil plant proposed for construction in the Yabucoa Valley of the Island. This project, if approved, would involve a total investment of $125 million.

Part of the crude oil processed in this proposed plant would be shipped to the U.S. mainland in the form of jet fuel components, gas oil and lubricating oils. Prior to submitting our application to the Department of Interior, Sun entered a formal agreement with the Puerto Rican Government which oulined our mutual objectives. When this agreement was signed and forwarded to the Department of Interior, together with our application, it was our understanding that the request for crude oil quota and movement of products from Puerto Rico to the United States mainland would be accomplished within the existing 12.2% limitation.

The Puerto Rican project would serve an objective of the United States Government to have investments made on domestic soil rather than abroad. The availability of lubricating oils refined in Puerto Rico will help to counteract declining exports from the U.S. It will also contribute to the maintenance, or even perhaps enhancement, of the U.S. balance of payments position. The importation of jet fuel components to the continental U.S. will relieve impending military and commercial shortages. A further objective of the U.S. Government and the Puerto Rican Economic Development Administration would be met by this investment since the total project would create about 2,200 direct and indirect jobs.

We are certain that you and the other members of the Committee on Finance are seeking the best answer to the question of oil imports. However, we feel we must express our opposition to this proposed Bill since, in Sun's opinion, it produces no benefits but may instead be harmful to our nation.

We respectfully request that this correspondence be made part of the record of your Committee's hearings and have enclosed 25 additional copies for possible circulation within the Committee. Thank you for the opportunity to express Sun Oil's position.

Very truly yours,

ROBERT G. DUNLOP.

STATEMENT OF FRANKLIN M. FISHER, PROFESSOR OF ECONOMICS, MASSACHUSETTS INSTITUTE OF TECHNOLOGY

SUMMARY

The argument that quotas on petroleum imports enhance the security of the United States is a false one. To ensure the preservation of domestic oil supplies in the event of a petroleum crisis, the United States should import freely and reduce consumption of domestically produced oil. While it is true that this would sharply curtail petroleum exploration, it is not true that petroleum *discoveries* would be so greatly affected as to make domestic reserves decrease substantially if at all. Further, it is clear that the United States is in no danger of running out of oil. If it is desirable for strategic purposes to ensure that some oil reserves are kept in a readily producible state, this should be done by stockpiling reserves in the ground analogous to the treatment of other strategic materials. It should not be done by keeping gasoline and other oil prices high at the expense of American consumers.

In fact, the main effect of oil import quotas is the maintenance of high prices and the subsidization of various relatively inefficient domestic producers at the expense of the American motorist. Quotas should be discontinued, not written into law.

1. Oil Import Quotas and National Security

The basic argument put forward in favor of oil import quotas is one of national security. It is argued that free imports of oil make us reliant on foreign sources which may be (and have been) cut off or diminished in the event of an emergency. By limiting imports, we free ourselves from international political blackmail (principally by the Arabs). I believe this argument to be false. The imposition of oil import quotas does not advance the security of the United States and it unduly penalizes American motorists.

It is obvious that for the national security argument for oil import quotas to be right, it must be so for somewhat subtle reasons. If free imports lead to heavy use of imported oil and a cutback in domestic production displaced by imports, the natural conclusion is that domestic oil will not be used up so fast and there will be more of it around in the event of an emergency than would be the case if imports were limited and domestic production expanded. If one wants to have a strategic material on hand for crises, a reasonable way to behave is to stockpile it and use foreign sources in non-crisis situations, not to use up domestic supplies faster. This is United States government policy with respect to most other strategic materials.

This argument is realised by quota proponents. They claim that the true situation is as follows:

A. Domestic supplies of crude oil in the ground change when oil is produced (a subtraction) and when new oil is discovered (an addition).

B. Free imports will reduce domestic production and thus indeed reduce the rate at which we subtract from known oil reserves.

C. However, free oil imports will also reduce the price of crude oil. This will reduce the incentive to exploration for and discovery of oil. Exploration is very sensitive to such incentives and will fall off drastically.

D. This will greatly reduce additions to oil reserves through new discoveries and

E. The net result of the two effects will be a reduction in oil reserves.

This fairly complicated argument is not ridiculous, but it is almost certainly completely false. A good deal of recent quantitative research (mine and others) has shown that while oil exploration is indeed rather sensitive to price, the *discovery* of new crude oil supplies is not so sensitive as exploration. The principal reason for this is that higher prices lead prospectors to drill many fields that would be too small to be worth drilling at lower prices.

Indeed, dismissing returns to oil exploration induced by higher prices tend to set in rather quickly. The best estimate of the effects of a price increase[1] seems to be that a ten percent price increase (other things equal) leads to about a sixteen per cent increase in the number of wildcat wells but only about a nine per cent increase in discoveries. Whether this means that discoveries are sufficiently sensitive to prices to make the pro-quota argument true is not clear. What is clear is that such sensitivity is not so obviously high as to make that argument highly persuasive. (In this connection, it is worth noting that the supposed high sensitivity of oil discovery to economic incentives is used to buttress any special treatment for crude oil producers, principally the percentage depletion provisions of the tax laws. It is not a strong buttress.)

Moreover, whatever the effects of free imports on oil discoveries, and even if new oil discoveries were to cease altogether on the abandonment of quotas, the United States is in no danger whatever of running out of oil. This is so for three reasons:

A. Proved reserves of crude oil are sufficient for about 10-12 years production at current rates. (This figure has been roughly constant for a long time.)

[1] This estimate is taken from Edward W. Erickson, "Economic Incentives, Industrial Structure and the Supply of Crude Oil Discoveries in the U.S., 1946–58/59," paper delivered at the Toronto Meetings of the Econometric Society, August 1967. Erickson has revised, updated, and improved on my earlier work in this area, published in Franklin M. Fisher, *Supply and Costs in the United States Petroleum Industry: Two Econometric Studies*, for Resources for the Future, Inc., Baltimore, Md. Johns Hopkins Press, 1964.

B. Proved reserves are a deliberately conservative estimate of the amount of oil in known oil fields and pools. They measure oil in place in such fields close to existing wells and available pretty much without further exploration. The total amount of recoverable oil in already discovered deposits is at least 1.3 times proved reserves (thirteen years supply, and I am being conservative here).

C. Production of crude oil from oil shale is technologically feasible. There is at least forty years supply of such oil in known deposits (but it would be somewhat more expensive to produce than domestic crude out of the ground).

D. And, of course, in the event of a prolonged oil crisis, exploration would rise sharply.

A good argument as to national security is that whatever the long-run supplies of oil, an emergency requires that oil be readily available (although the nature of crises since World War II may suggest that the ability to produce more oil *in a great hurry* is not of primary importance). This makes points B–D irrelevant in the short run. Further, the possible need to keep oil supplies readily available may require that the industry not shut in known fields, but keep them in a state ready to produce as well as keeping in being the capacity to produce already known proved reserves in a hurry. To the extent that such very short-run considerations are indeed important, however, it is obviously efficient and appropriate for the government to stockpile producible oil in known fields by buying up fields or developing fields on federal lands (these are quite substantial) or to directly subsidize such stockpiling. (One way to do this is by paying producers in fields closed down as a result of import competition to maintain those fields and their equipment in a state of readiness.) It is both inefficient and inequitable to subsidise the entire domestic industry by keeping gasoline prices high. For no other strategic material do we engage in such inefficient action in place of direct stockpiling. The question should be consciously studied (or existing studies used) and direct action taken to stockpile readily producible oil in the ground if this turns out to be necessary. There is no reason to do this at the expense of every motorist by limiting imports of efficiently produced cheap petroleum (largely produced by American firms, by the way).

2. *The Real Effects of Quotas*

The national security argument for quotas is thus respectable and bogus. The real effects of quotas are the maintenance of high domestic prices and the protection of relatively inefficient domestic oil producers. The system works as follows.

For reasons of conservation, crude oil production is exempted from the effects of the anti-trust laws and interstate shipment of crude oil produced outside of state conservation limitations is prohibited. In practice, when the market for petroleum weakens, state conservation authorities (principally the Texas Railroad Commission) limit production far below the levels which would be dictated by conservation considerations. However such limitations are rationalised, their effect is the adjustment of production to demand and the maintenance of relatively high prices for crude petroleum and petroleum products. In particular, state production restrictions limit production from efficient, low-cost high-production wells very severely. This keeps prices artificially high and inefficient, high-cost producers in business. In recent years, there has been an abundance of domestic oil and production has been kept far below capacity.

Obviously, this system could not work if low-cost foreign oil were freely imported. It is thus greatly in the interest of the domestic oil producers to limit such imports. It is not in the interest of the United States as a whole, nor is it in the interest of most of its citizens.

3. *Conclusions*

A. Import quotas on petroleum should be abandoned, not written into law. They do not advance the security of the United States and they penalize the American motorist for the benefit of domestic oil producers.

B. A study of the advisability of stockpiling readily producible oil in the ground should be undertaken and such stockpiling done by direct action in the cheapest possible manner.

C. The present practice of maintaining oil prices at an artifically high level under the guise of conservation should be abandoned. Although free imports should go a long way toward accomplishing this, Congress should consider whether direct legislation toward this end would be appropriate.

BOULDER CITY, NEV.

Hon. Senator LONG,
From Louisiana,
Senate Office Building,
Washington, D.C.

HONORABLE SIR: I understand that you are instrumental in the proposed legislation dealing with foreign oil imports. Of course you have the support of the oil industry outside the major oil companies.

However, I wish you would go further and attempt some legislation, putting in reserve the submerged lands, and also oil shale. The Department of the Interior seems to be very near sighted where the question of public interest is concerned, and incredibly amiable to anything the large oil companies want.

Yours very truly,

DUNCAN MILLER.

SUNRAY DX OIL CO.,
Tulsa, Okla.

Senator RUSSELL B. LONG,
Chairman, Senate Finance Committee,
Old Senate Office Building,
Washington, D.C.

DEAR SENATOR: I read with interest the comments of the members of the Senate Finance Committee and the people who testified on S-2332, a bill having to do with the Oil Import Program. Our company is intensely interested in the Oil Import Program and one of our company officials attended the hearings last week.

The purpose of this letter is to state that Sunray DX Oil Company firmly supports the Mandatory Import Program. We have always felt that the control of the importation of crude oil into the United States is essential to the sound economy of our domestic oil industry and to our own national security.

In general, we feel that the Oil Import Program has been administered very well under the Department of Interior. However, we have viewed with concern the recent grantings of foreign trade zones and preferential treatment of Puerto Rican and Virgin Islands refiners which will provide certain companies with tremendous competitive advantages.

Since we did not submit any testimony at your hearings, we wanted to take this opportunity to express our views about the program and how it has been administered under Assistant Secretary J. Cordell Moore, a man whose integrity and dedication we have learned to respect deeply.

Sincerely yours,

PAUL E. TALIAFERRO.

PASADENA, CALIF.

To the Senate Finance Committee:

Defeat Senator Russell B. Long's bill.

Rule in favor of importation of Indonesian oil in order to relieve air pollution condition.

MR. and MRS. COOLIDGE CARTER.

POWER TEST PETROLEUM DISTRIBUTORS, INC.,
Hicksville, N.Y.

Hon. RUSSELL B. LONG,
U.S. Senator (Louisiana).

DEAR SENATOR: It has come to our attention that the Senate Finance Committee held hearings on the Senate Imports Restriction Bill (S-2332). We are interested in these proceedings as our company is an independent gasoline marketer.

We have been trying to obtain a quota to import gasoline since 1960. We have been unsuccessful because the oil imports board will not issue a finished gasoline produtcs quota to any company that doesn't have a historical import basis and is not a producer. The action has put every independent marketer of gasoline at the mercy of the major oil companies. These companies enjoy and are making profit on import quotas that they have.

Prior to the import quota system, the independent marketer had many domestic sources available to him for supply. If these weren't profitable, he could import product and compete on an almost equal basis with his major competitors. We are now forced to buy from these major companies or close our doors and go out of business. Is this considered a fair and equitable system? Since these quotas were introduced, many of the independents as ourselves have either gone out of business or were swallowed up by a major oil company. The government has given the oil giant license for complete control of our aspect of the industry.

I understand that the principal aim of the S-2332 is to set imports at about 12.2% of domestic production. That is fine in order to protect our domestic oil producers. But it should go a little further. As Mr. Otis Ellis stated to your committee, there should be "special provisions" giving private-branders "the right to import allocations of gasoline so as to better insure their supply at reasonable prices". And this is putting it mildly.

If these special provisions are instituted in your bill, it should be a protection for the American public. It would be a check on the uncontrolled aspirations of the major oil companies. It would help maintain retail prices at a true competitive level.

Senator Long, any provisions that would help the independent marketer retain his independence will help to maintain our American policy of open competition.

Hoping that you will be able to do something for our cause and a competitive system, I remain

Respectfully yours,

LOUIS COHEN,
Vice President.

LONG BEACH, CALIF.

Senator RUSSELL LONG,
Senator Office Building,
Washington, D.C.

DEAR SIR: I am bitterly resentful of the oil import legislation you have introduced to block importation of low-sulphur oil from Indonesia for use in utility steam generating plants, even though such fuel is the only oil that does not produce smog and is unavailable from domestice producers.

All legislation, ideally, should be for the best interests of the most people. The time has come that the domestic petroleum industry must give a little ground to the health of the people. For years, the ridiculously unfair oil depletion allowance has allowed it to ride on the backs of other taxpayers. The least it can do is help these other taxpayers to breathe cleaner air by a poor, puny little loophole like this one. Oil industry or no oil industry, cleaner air has got to come, and it is the duty and privilege of any senator to do what he can to foster it. It is *your* air as well as mine, breathed by *your* children as well as mine (or have you settled your family in a relatively smog-free area?)

Senator, try to be a statesman—not just a politician—you'll sleep better at night. And when you come to the end of your career, whenever that is, you can be proud of it instead of ashamed. Let the people breathe cleaner aid. It is *their* air.

H. M. BRUMMETT.

DEAR SENATOR LONG: How can you place oil industry profits above the health of the American people. We must have clean air! We must have low sulfur oil! Please change your bill at once! Air pollution must be controlled.

Sincerely

PAUL FLEISS.

REDONDO BEACH, CALIF.

Hon. RUSSELL LONG,
Committee on Finance,
U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: An unexpected delay in receiving material by Air Mail Special Delivery, which should have been in my hands this morning, necessitates the writing of this letter respectfully urging you and your Finance Committee to favorably consider granting permission for the importation of Indonesian fuel oil as being considered in Bill No. S. 2332.

Our request is the result of extensive City Council hearings and the documentation of air pollution damage to home owners of the city and boat owners berthed in King Harbor, Redondo Beach, California, caused by the excessive sulfur fallout of domestic fuels consumed by the local Southern California Edison steam generating station.

The low sulfur content of Indonesian fuel oil would serve to eliminate or at least reduce the fallout to a tolerable level.

Current domestic fuel consumption and related sulfur fallout is causing an adverse effect on real estate values, financial hardship for harbor lessees and adverse publicity for our community.

Thanking you in advance for your consideration of this request and offering to be of further assistance in this matter, I remain

Yours truly,

DAVID K. HAYWARD,
Councilman.

PARGAS,
Waldorf, Md.

U.S. Senator RUSSELL B. LONG,
Senate Office Building,
Washington, D.C.

DEAR SENATOR LONG: Last summer I wrote the Senate Finance Committee as Chairman of the Marketers Section of the National LP-Gas Association supporting S. 574, a bill which would eliminate the import restrictions on propane. The Marketers Section of the NLPGA is composed of approximately 3,000 retail dealers distributing propane (LP-gas) throughout the country. These dealers feel that import restrictions on propane should be removed to insure supplies of this fuel and energy source that are—at all times—adequate to meet the need of the American consumer. Accompanying my earlier letter was a statement presented to the Interior Department's Oil Import Board, which more fully explains our concern.

I understand that the Senate Finance Committee is now about to consider S. 2332, which would substitute a rigid, congressionally fixed 12% import quota for the present 12% which is set by the Interior Department. Since the views expressed in my prior correspondence relate with equal impact to this bill, I would appreciate your reviewing my earlier letter.

As I stated before, long range forecasts indicate a tightening supply of propane which threaten the American consumer who relies on this fuel. We strongly feel that this should be guarded against.

The rigid import control proposed in S. 2332 would intensify this danger by creating the need for time consuming Congressional action to create relief and answer an immediate and vital public need. While we still fully believe that the full elimination of propane import restriction is the best answer in the public intrest, the existing flexibility of the Interior Department in providing immediate relief at any period of crisis is preferable to the system proposed in S. 2332. We therefore urge that S. 2332 be rejected, or in the alternative, that S. 574 be passed, thus removing propane from the inflexibility of S. 2332.

I would emphasize that our opinion and position of S. 2332 should not be construed to be related to the overall committee consideration of the need for import quotas on the wide range of other commodities under consideration, including other petroleum products. Our concern is directed at our product—propane—and at protecting both the small businessman retailing this product and the consuming public.

Respectfully yours,

W. A. SCHUETTE,
Chairman, Marketers Section, National LP-Gas Association.

STATEMENT ON BEHALF OF THE MARKETER'S SECTION OF THE NATIONAL LP-GAS ASSOCIATION BY W. A. SCHUETTE

I am W. A. Schuette, of Waldorf, Maryland, Vice Chairman of the Board of Pargas, Inc., an LP-Gas retailer, and Chairman of the Marketer's Section of the National LP-Gas Association.

I am speaking only for the Marketers Section of the Association, which is composed of more than 2,800 retail distributors who handle approximately 85% of the LP-Gas distributed to consumers in the United States.

It is estimated that approximately 20,000 to 30,000 persons and companies are engaged in the distribution of LP-Gas in the United States. These distributors market the LP-Gas consumed by more than 10 million residential consumers, by more than 1,600,000 farms and by many industries. These distributors are currently marketing between six and seven billion gallons of LP-gas annually. Collectively, these distributors employ 75,000 people and represent a substantial market for trucks, tires, steel tanks, household appliances and a variety of industrial equipment.

The National LP-Gas Association is the industry's national trade association and its membership includes all segments of the LP-gas industry, including producers, distributors, appliance and product manufacturers and others. The National association has as affiliates the LP-gas trade associations of forty states.

The NLPGA Marketers Section, by resolution unanimously adopted at their meeting of May 3, 1967, is urging that restrictions on the importation of propane be removed to serve the needs of the domestic, commercial, industrial and agricultural markets commonly served by the LP-gas dealer. On their behalf I am now urging that relaxation.

The domestic supply of propane can be expected to be inadequate to meet the steadily increasing demand. This is the forecast of experts in this field. A preview of this trend appeared in the 1965–66 winter season when the combination of increasing demand and severe weather conditions created shortage in several areas, particularly in the Southeast. While this immediate shortage has been arrested by 1966 gains in production, forecasts indicate that this balance between supply and demand is precarious.

I am not going to take your time in attempting to analyse the various studies which have been prepared over the past several years to demonstrate the tight supply-demand factors which are currently and prospectively applicable to propane. The attached table presented by Mr. O. S. McClanahan to the Natural Gas Processors 1966 meeting demonstrates this. I emphasize that the projection for 1970–75 forecasts a shortage if the present ratio of propane use in petrochemicals is maintained. It is sufficient to say that every producer of propane has created the strong impression with the marketers of propane that supplies of propane are inadequate. Furthermore, this situation has been strongly reflected in the price at which propane is marketed. Prices charged by producers to LP-gas marketers have increased as much as 100% within the past five years. This can be demonstrated readily by a comparison of posted prices at Baton Rouge, Louisiana which for the past several years have been as follows:

June 15, 1962	$0.03625
June 15, 1963	0.03625
June 15, 1964	0.035
June 15, 1965	0.04
June 15, 1966	0.0525
Currently	0.0625

This dramatic increase in the cost of propane actually misrepresents the actual increase in price which has occurred. Prior to the fall of 1965, it was common practice within the industry for producers to market propane generally at prices below posted price and these discounts are known to have been from 1¢ to 2¢ per gallon below posted price at various times during this period. Currently, it is also common knowledge that some producers and brokers of propane are known to be selling product at prices up to 2¢ per gallon over posted prices. Consequently, the full impact of the increase in the cost of propane to the retail distributor has been as much as 6¢ per gallon due to what is represented to be a general shortage of propane. Translated into simple terms, this means that the increase in the cost of propane per gallon in some instances has been as much as 300% of the price at which propane was marketed within the past five years. This price movement even without professional study and opinion would seem to indicate that propane supplies are inadequate to meet the needs of residential, agricultural, industrial and other customers.

The tremendous swing in the cost of propane has produced an obvious profit squeeze on every LP-gas marketer in the country. More important than this, however, is the fact that these marketers within the past 18 months have had to pass the increasing costs of propane on to the consuming public. It is a well known fact within the industry today that the retail prices at which propane is marketed to the consumer has increased from 1¢ to 4¢ per gallon depending upon the marketing area. The alleged shortage of propane has increased dramatically the cost of millions of citizens who use propane in heating their homes, operating their farms, and in many other applications. If the shortage of propane is acute enough to warrant this tremendous cost to the general public, then certainly something must be done to increase the supply of propane for the benefit of the general public.

There has been suggestion that Canadian importation of propane should be restricted. Action in this direction, in the fact of the current and prospective supply situation would only gravely aggravate domestic imbalance and is unjustified and most objectionable. Canadian propane import is most essential.

Our petrochemical competitor for propane supply is now the beneficiary of import quotas based on inputs. We suggest that this is discriminatory and inequitable. The propane marketer should be given equal treatment. To a considerable degree the petrochemical allocations work to the disadvantage of the LP-gas dealer. Import quotas, or "tickets", are being exchanged for domestic propane in substantial quantity, removing this propane from the LP-gas dealer market. In addition, the petrochemical propane customer is receiving an indirect subsidy of an estimated value of $1.25 per barrel of import quota. We are not advocating that anything be taken away, or that these quotas be eliminated. We are urging equal treatment, that the LP-gas dealer be given his fair share, of the propane necessary to satisfy public demand for household, farm and commercial and industrial uses.

Will the National Security be jeopardized by removal of import restriction on propane? It is our opinion that national interests and the interest of the public will be better served by making ample supplies of propane available not only for the many current uses, but also for many new usage areas where propane serves the home, and in particular serves vital parts of our economy in preserving and developing agricultural and industrial usages. The industry's research and development programs are being discouraged by lack of availability of LP-gas, and particularly by the impending threat of short supply. One of these areas of developing use, and related research, that is severely handicapped is in propane motor fuel use. In this use propane can make a significant contribution in minimizing air pollution through reducing objectionable engine emissions.

Executive Order 11051 provides that the Director of the Office of Emergency Planning shall maintain surveillance of imports and after conference with the Secretary of the Interior, among others, he shall inform the President of the need of further action. Related to this, it further provides that in the event prices are increased after the proclamation "such surveillance shall include a determination as to whether such increase or increases are necessary to accomplish the national security objectives". We respectfully suggest that substantial increases in propane prices are unrelated to national security objectives and request that the Secretary initiate review through the Office of Emergency Planning to secure removal or relaxation of propane import restriction to rectify this condition, if such procedure is necessary.

Propane price has increased from a group three posted price of 4 to 5¢ a gallon in 1959 to 6–6¼¢ a gallon in 1967. Data on prices between 1962 and 1967 show even more dramatic increases in price. Even at this greatly increased price propane supplies are not adequate. It is also the fact that the posted price of 1959 represented a ceiling with most actual sales below that ceiling, whereas in 1966 and 1967 the posted price was and is the floor with many sales above this floor. Spot purchases were made in 1966 at prices up to 9¢ a gallon. Contrasting this 9¢ gallon price with spot prices of as low as 2¢ a gallon in 1959 accentuates a price increase that is supported by an import program theoretically predicated upon national security objectives.

We urge a determination by the Secretary that such increases are not essential to national security objectives. We see no relief from this upward trend in propane price with a prospective imbalance in demand-supply. This trend is damaging to the general public. This trend in propane cost is forcing the LP-gas dealer out of existing marketing areas, and is closing or curbing entrance into new or developing areas. One such marketing area is propane use as a motor fuel.

In summary, it is the recommendation of the Marketers Section of the National LP-Gas Association, that restriction on the importation of propane be removed. It is our firm conviction that the removal of this restriction is in the public interest and is essential to provide relief from prospective propane shortage.

PROPANE SUPPLY-DEMAND

[In millions of gallons]

	1960	1965	1966	1970	1975
Supply:					
Natural gas	4,513	5,801	6,388	7,180	8,260
Refinery	1,997	2,529	3,007	4,150	4,940
Imports		123	190	300	400
Total	6,510	8,453	9,585	11,630	13,600
Demand:					
Residential and commercial	3,637	4,878	5,100	5,980	6,800
Chemical	1,281	1,694	2,130	[1] 2,820	[1] 2,970
Internal combustion	612	950	980	1,500	2,100
Industrial	345	477	490	630	720
Other	328	302	296	500	710
Exports	28	98	125	200	300
Net to shortage	121	(161)	225		
Total	5,352	8,238	9,345	11,630	13,600
Out of balance	158	215	240		

[1] By difference.

Note: Projected supply includes Canadian import.

Supplemental Statement of W. A. Schuette on Behalf of the Marketer's Section of the National LP-Gas Association, Department of Interior Public Hearings on the Oil Import Program

In written and oral testimony submitted to the Department on May 24, 1967 a table of Baton Rouge, Louisiana posted prices for June 15 of each year 1962 through 1966 was presented. In response to request for the posted prices for earlier years the following is submitted:

June 15, 1958	4.625–5.625
June 15, 1959	4.625–5
June 15, 1960	4.625
June 15, 1961	3.625

I would again emphasize as earlier stated that posted prices during this period were not actual but represented a ceiling.

In response to a question following my testimony, my answer deserves further clarification that I now present. In replying to a question as to whether demands for propane had been met my answer may have produced a conclusion that propane was not in short supply, in my indicating that marketer requirements to date had been supplied. The fact is that according to Bureau of Mines figures for some time prior to 1966 demand increased by 6% per year while supply, or production rose only by 5.5%. This short supply was met only by drastically drawing on, and depleting underground storage. Consequently a more complete answer to the question propounded would be that propane was in short supply and marketers needs had been met only by drawing on reserves.

Statement of Louis J. Fuller, Air Pollution Control Officer, Los Angeles County

I appreciate this opportunity to present these views concerning S. 2332 on behalf of the Board of Supervisors of Los Angeles County and the seven million people who elected them. The five Supervisors also serve ex officio as the Air Pollution Control Board, which directs the activities of the Los Angeles County Air Pollution Control District.

We oppose the enactment of S. 2332 because it presents a threat to the health and welfare of the people of our area, and because it disregards the urgency of controlling air pollution, not only in our county but throughout the nation. The efforts of many years to alleviate the air pollution problem of Los Angeles County will be frustrated by it at the very moment that those efforts are about to bear fruit.

The burning of high-sulfur residual fuel oil in power plants has become by far the greatest stationary source of air pollution in the Los Angeles Basin. Other non-automotive sources have been brought under stringent control in twenty years of the most vigorous air pollution control efforts, but the emissions from fuel oil burning have increased despite restrictions on its use and efforts to develop means of control.

Use of fuel oil containing sulfur in excess of 0.5 percent by weight is prohibited from April 15 through November 15 by Rule 62[1] of the Los Angeles County Air Pollution Control District, and during these warmer months the power plants are able to meet their fuel needs with natural gas. During the remainder of the year, APCD Rule 62.1[2] requires that natural gas be burned whenever it is available, but when it is not, the use of fuel oil having a sulfur content in excess of 0.5 percent is permitted. During the most recent 150-day Rule 62.1 period, it was necessary to burn high-sulfur fuel oil in the power plants on 145 days.

When oil is burned, the sulfur in it is oxidized and emitted into the atmosphere as sulfur dioxide and sulfur trioxide, while the unconsumed minerals and metals are emitted as fine particles, or collect within the combustion equipment from which they are blown into the atmosphere during daily cleansing operations. These several types of emissions descend to the ground at varying distances from the stack. The heavier particles fall within 20 stack lengths of the source and are termed "fallout." Lighter particles and droplets may be carried substantially greater distances before reaching the ground, and gases may remain in the atmosphere for fairly long periods of time, until they undergo chemical change and assume the form of liquid solids.

The particles and droplets containing sulfur are strongly acid, and they corrode and eat into surfaces on which they alight. The metallic components of the fallout material cause rust-colored staining, and particles of soot and oil droplets leave black stains.

In the vicinity of oil-burning power plants, these effects are observed on buildings, automobiles, boats, clothing, and vegetation, while sidewalks in these areas become a rust brown. The burning of oil also causes conspicuous plumes to be emitted from the stack, and these plumes, which extend for many miles, are the subject of numerous complaints to the APCD by residents and passers-by.

Both sulfuric acid and sulfur dioxide react with materials in the air, such as the metals from burning oil, to form sulfates, and these have been closely related to observed adverse effects on human health, particularly to respiratory cripples, the very young, and the very old, and damage to living cells of animals and plants. The presence of moisture and ocean salt greatly enhances the effects of these sulfur compounds on living organisms. It is noteworthy that all but one of the large power plants in Los Angeles County are located at the edge of the ocean where the air is moist and salty, and fog is prevalent.

The power plants in Los Angeles County burn tremendous quantities of oil, as much as 12 million barrels in the five-month period from November 15 to April 15. On a day of peak use, they consume about 150,000 barrels, and a single large plant may burn 50,000 barrels in a day. About 95 percent of the fuel oil burned in Los Angeles County is burned in these power plants.

The two large power utilities and the APCD have joined in efforts to improve the supply of natural gas for use as boiler fuel however, the Federal Power Commission has refused to allocate additional gas to Southern California as an air pollution control measure. In 1966, following three years of hearings, the Commission did make an additional allocation to existing gas suppliers, but based its action on grounds other than air pollution. This gas is not earmarked for power plant use, and will be available for this purpose only so long as it exceeds the rising demands of non-interruptible users. All appraisals agree that fuel oil use by the power plants rapidly will exceed the present 12 million barrel a year level.

Recenty there has been a promising new development: a low-sulfur, low-ash oil from Indonesia has become available. A test of this oil in a power plant in Los Angeles County showed no visible plume, no fallout, a great reduction in sulfur emissions, and even a reduction in the emissions of oxides of nitrogen. If this oil is burned in our power plants whenever natural gas is not available, it is our opinion that it will cause no air pollution problem.

[1] Exhibit A—Rule 62.

[2] Exhibit B—Rule 62.1.

It was only after careful consideration of our needs and of the benefits to be derived from substituting this Indonesian oil for fuel oil produced from domestic crude, that the President and Secretary of the Interior modified the oil import regulations and have now made it possible for importation into Los Angeles County to begin. We expect to be burning some of this oil within a month, and by the winter of 1968–69 we anticipate that almost all of our fuel oil demand will be met in this way.

It should be noted carefully that until the Standard Oil Company of California and Texaco came forward with the proposal to provide this oil, no other producer or refiner offered such a product to supply this need, and there still is no competing offer to do so. In spite of this inability to provide any relief for the air pollution problem in the Los Angeles Basin, most of the other oil producers and marketers in District V have vigorously opposed the changes in the import regulations that will permit this oil to be supplied in Los Angeles County. This callous indifference to the public welfare is almost incredible. They cannot meet this urgent public need, yet they obstruct anyone else from doing so.

Our understanding of S. 2332 is that it will prevent the importation of this vital low-sulfur, low-ash oil. It apparently is necessary to import this particular oil as crude rather than as residual fuel oil, because offshore refining facilities are not available; therefore, the exemption in the bill for residual fuel oil will not apply. Unless this oil is obtained, however, our situation will continue to deteriorate, millions of dollars of property damage will occur, and the health and well-being of seven million people will be imperiled.

Important as the well-being of the domestic petroleum industry is, control of air pollution is even more crucial to the general welfare of the nation. The national security and general welfare of the United States cannot be equated narrowly to the economic security of one particular industry. The health and well-being of the people who make up this country is the paramount concern of government, and that well-being most certainly depends upon a clean, breathable atmosphere. Because the nature of oil burned as fuel determines to such an extent the condition of our atmosphere, air pollution must not be disregarded as a pivotal factor in regulating oil importation.

The recent decisions of the President and Secretary of the Interior demonstrate their awareness of this situation and their ability to respond to the need. We in Los Angeles County have been greatly heartened by this result, and we most strongly oppose any action that will interfere with our obtaining an adequate supply of non-polluting fuel oil. Senate Bill 2332 threatens to do so, and for that reason we urge that it not be enacted.

Exhibit A

Rules and Regulations—Air Pollution Control District, County of Los Angeles

Rule 62. (Amended 3–16–61) Sulfur Contents of Fuels. A person shall not burn within the Los Angeles Basin at any time between May 1 and September 30, both dates inclusive, during the calendar year 1959, and each year thereafter between April 15 and November 15 both inclusive, of the same calendar year, any gaseous fuel containing sulfur compounds in excess of 50 grains per 100 cubic feet of gaseous fuel, calculated as hydrogen sulfide at standard conditions, or any liquid fuel or solid fuel having a sulfur content in excess of 0.5 percent by weight.

The provisions of this rule shall not apply to:

a. The burning of sulfur, hydrogen sulfide, acid sludge or other sulfur compounds in the manufacturing of sulfur or sulfur compounds.

b. The incinerating of waste gases provided that the gross heating value of such gases is less than 300 British thermal units per cubic foot at standard conditions and the fuel used to incinerate such waste gases does not contain sulfur or sulfur compounds in excess of the amount specified in this rule.

c. The use of solid fuels in any metallurgical process.

d. The use of fuels where the gaseous products of combustion are used as raw materials for other processes.

e. The use of liquid or solid fuel to propel or test any vehicle, aircraft, missile, locomotive, boat or ship.

f. The use of liquid fuel whenever the supply of gaseous fuel, the burning of which is permitted by this rule, is not physically available to the user due to accident, act of God, act of war, act of the public enemy, or failure of the supplier.

EXHIBIT B

Rule 62.1. (Adopted 1-14-64) a. A person shall not burn within the Los Angeles Basin at any time between the days of November 16 of any year and April 14 of the next succeeding calendar year, both dates inclusive, any fuel described in the first paragraph of Rule 62 of these Rules and Regulations.

b. The provisions of this Rule do not apply to:

(1) Any use of fuel described in Subsections a, b, c, d, e, and f of said Rule 62 under the conditions and for the uses set forth in said Subsections.

(2) The use of liquid fuel during a period for which the supplier of gaseous fuel, the burning of which is not prohibited by this Rule, interrupts the delivery of gaseous fuel to the user.

c. Every holder of, and every applicant for a permit to operate fuel-burning equipment under these Rules and Regulations shall notify the air pollution control officer in the manner and form prescribed by him, of each interruption in and resumption of delivery of gaseous fuel to his equipment.

(See p. 406 for the views of Mr. M. S. Thomson, Union Oil Co. of California, on the matter discussed in the preceding statement.)

AIR TRANSPORT ASSOCIATION,
Washington, D.C.

Hon. RUSSELL LONG,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: There is submitted herewith a statement on behalf of the scheduled airlines on S. 2332. We ask that it be made a part of the record on this bill.

The airlines do not object to the oil import quota—it serves a useful national purpose. For sound reasons, the quota has never included bonded jet fuel used by airlines for international flights.

Airlines do object to one provision of this bill which would, for the first time, place airline bonded fuel under the quota. Since the finished products portion of the total quota is already fully committed to other uses, the practical effect of forcing bonded jet fuel under the quota would be to deprive airlines of this vital source of supply. It is well known that the jet fuel supply situation is extremely critical.

Thus, this aspect of the bill goes far beyond the basic purpose of the legislation—establishment of the present quota system by statute.

We strongly urge the Committee to correct this defect and avoid its inequitable result by adopting the amendment attached to our statement.

Cordially,

S. G. TIPTON.

STATEMENT OF THE AIR TRANSPORT ASSOCIATION OF AMERICA

The Air Transport Association of America is a voluntary trade and service organization whose membership is comprised of virtually all the scheduled airlines of the United States which engage in air transporation pursuant to certificates of public convenience and necessity issued by the Civil Aeronautics Board. In addition to their domestic and territorial services, these airlines carry the flag of U.S. air commerce to every corner of the world.

The oil import legislation before this committee would have a direct and critical impact upon the airline industry. Whether inadvertently or otherwise, one provision thereof would have the practical and immediate effect of eliminating altogether the source of almost all the jet fuel used in this country by the airlines to operate their international flights. The effect of this particular provision on the overall legislation purpose of encouraging and stimulating domestic oil production in the interests of national security, on the other hand, would be minimal since the jet fuel in question would represent only a small fraction of one percent of total domestic oil production.

BEST COPY AVAILABLE

To properly understand this problem, we must first review some of the pertinent background.

Under the provisions of Section 309(a) of the Tariff Act of 1930, 19 U.S.C. § 1309(a), fuel and other supplies for aircraft and vessels engaged in foreign trade may be withdrawn from customs bonded warehouses free of all duties and internal revenue taxes. The airlines, both U.S. and foreign flag, rely on fuel withdrawn from bonded warehouses for use in the operation of their international flights. The rationale underlying the long standing statutory provision for such duty free withdrawals is that these commodities never enter into the domestic commerce of the United States, but rather are consumed directly in the course of conducting this nation's foreign trade. This privilege is also granted to foreign ships and aircraft on the basis of reciprocity; being contingent upon the grant of reciprocal privileges by the foreign country involved (see 19 U.S.C. § 1309(d)).

Of more recent origin, the mandatory oil import program was established by Presidential Proclamation No. 3279 on March 10, 1959. It was determined at that time that bonded fuel was outside the jurisdiction of the oil import program. By its express terms, the proclamation specifically excluded from the quotas and other import limitations established thereunder ". . . free withdrawals by persons pursuant to Section 309 of the Tariff Act of 1930." This executive determination has never been changed. Thus, the bonded fuel used by the airlines has never been covered by the mandatory oil import program and no basis has been established for the changing of its status in the present legislation.

In introducing S. 2332, Senator Long observed that this legislation ". . . basically is designed to write the present mandatory oil import program for crude oil and light products into law" (113 Cong. Rec. S 12080, August 23, 1967). Another sponsor, Senator Yarborough, similarly noted:

"It would preserve present levels; it would write into present law the amount of imports that the Department of Interior permitted for a long time, which are now threatened by numerous special exceptions, and all kinds of contrived exceptions to wreck the program" (113 Cong. Rec. S 12088).

Elsewhere in their introductory remarks, the various sponsors enumerated in some detail the exact nature of the special exemptions and exceptions which they felt were now threatening the mandatory oil import program. Absolutely no mention was made by anyone of bonded jet fuel withdrawals from customs warehouses which, as we have seen, have never been encompassed within this import program and thus could not constitute a newly arisen threat to the program.

Nevertheless, S. 2332 as presently drafted would have the effect of bringing bonded fuel under the existing oil import quotas for the first time. This results from its use of a definition of the term "imports" which is based on a statistical reporting practice of the Bureau of the Census. That agency includes within its "imports for consumption" statistics, the free withdrawals from bonded warehouses under the provisions of Section 309. (This Census Bureau practice is itself open to serious question since both Section 309(b) and 317(b) of the Tariff Act of 1930 clearly classify as *exportations* the loading of such supplies aboard ships and aircraft engaged in foreign trade.)

The bill in its present form would not simply bring bonded aircraft fuel within the oil import quotas for the first time; it actually would have the effect of eliminating altogether the availability of such fuel. This would be the practical result of the fact that important quotas for finished oil products (into which category jet fuel would fall) have always been a very small proportion of the overall total and have long since been allocated to other uses. Airline bonded fuel requirements in Districts I–IV during 1967 would represent 65% of the total finished products quota for these districts: their 1970 requirements would represent 100% of that quota. Thus, this legislation would override the long standing bonded fuel rights of the airlines under the Tariff Act of 1930—without any regard for the adverse effect on the economy and efficiency of this nation's foreign air commerce.

This bill would also jeopardize reciprocal privileges granted by foreign countries throughout the world. It would place the United States in the untenable position of circumventing the provisions of the bilateral air transport agreements which it has signed with over 60 foreign nations. These agreements provide that fuel and other supplies for use on the aircraft of each signatory country may be brought into the other's country and boarded on such aircraft free from customs duties, excise taxes, inspection fees and other national duties and charges. More recent bilateral agreements further provide that such fuel shall not be subject to otherwise applicable economic prohibitions and restrictions relating to import, export and transit.

To effectively end the availability of the bonded fuel used by foreign-flag airlines would certainly be deemed to be a breach by the United States of the spirit, and in some cases the letter, of these international agreements.

The consequent loss of stature in the community of nations would not be the only loss suffered by the United States by such a circumvention of these bilateral air transport agreements. Retaliatory action would surely be forthcoming. Just as our own Tariff Act provides for withdrawal of bonded fuel rights from the aircraft and vessels of foreign nations which do not accord reciprocal privileges, these nations can and would do the same to U.S.-flag carriers. The result would be a substantial net increased cost in the fuel loaded at foreign points—millions of dollars in added costs that would be paid without economic benefit to anyone in this country. The end result would be a total economic waste and a wholly unnecessary addition to the balance of payments deficit. Moreover, the very nature of such a breach of good faith on the part of the United States would likely engender other forms of economic retaliation—all to the detriment of the prime United States interest in the free and unhindered flow of international air commerce.

It is our understanding that other provisions of the bill would exclude from its coverage the bunker fuel used by ships engaged in foreign trade. To retain such rights for vessels, but not for aircraft, clearly would represent a rank form of discrimination between sea and air transportation—one that is unexplained and, we submit, unexplainable. Since bunker fuel and other residual fuel oils which have not been covered by the mandatory oil import program are to continue to be exempted by this legislation, the same treatment properly must be afforded with respect to the precisely comparable case of bonded fuel used by airlines.

With the elimination or substantial curtailment of the availability of bonded fuel supplies, these airline fuel requirements would be thrown on the domestic market which already suffers from shortages of jet fuel due to increased military requirements and the rapidly increasing demands of civil aviation. Bonded fuel now supplies about 20% to total airline fuel requirements in this country—much too large an amount for the already tight domestic market to handle. A substantial disruption in jet fuel supplies would be virtually inevitable; curtailment of air carrier schedules might even be required. Moreover, military fuel supply requirements would necessarily be affected adversely by this increased civil demand. And the economic effect on the airlines would be serious—an increase of 10 percent or more in the cost of fuel used on international flights. This latter element would be in derogation of the efforts of our government to attract foreign visitors to the United States through low-cost air services. Again, the balance of payments deficit would suffer.

In summary, this aspect of the legislation would unjustifiably eliminate a traditional right in aid of foreign trade, one recognised throughout the free world and made the subject of bilaterial agreement with over 60 foreign nations; it would place the United States in an untenable position with respect to these agreements and would invite wasteful economic retaliation; it would arbitrarily discriminate between air and sea transportation; it would seriously disrupt domestic aviation fuel supplies, with adverse effects on both military and civil aviation requirements; and, in general, would be in derogation of the vital public interest objectives served by the international air commerce of this nation. Moreover, this facet of the bill has no genuine relationship to the announced legislative purpose of the overall proposal, and would have only the most minimal effect thereon in any event. These considerations dictate that the legislation be amended so as to delete from its coverage all bonded fuel withdrawn free of duty pursuant to the provisions of Section 309 of the Tariff Act of 1930.

ATTACHMENT

SUGGESTED AMENDMENT TO S. 2882

Revise subsection (h) (2), as follows:

"Imports' shall include (*A*) 'imports for consumption' as recorded by the United States Bureau of the Census, *other than free withdrawals by persons pursuant to Section 309 of the Tariff Act of 1930, as amended*, and (*B*) shipments (A) (*i*) from Puerto Rico, the Virgin Islands, and Guam into the United States, and (B)(*ii*) into any foreign-trade zone located within the United States."

Explanation:

This revision maintains the existing exclusion of bonded fuel from the mandatory oil import program. It uses the language of Section 2(e) of the proclamation establishing the mandatory oil import program (Proclamation No. 3279 of March 10, 1959) which has always excluded bonded fuel withdrawals from the quotas and limitations established thereunder.

MURPHY OIL CORP.,
El Dorado, Ark.

Senator RUSSELL B. LONG,
Chairman, Committee on Finance,
New Senate Office Building,
Washington, D.C.

DEAR SENATOR LONG: In recognition of the limited period scheduled for the pulic hearings on the above bill and other various proposals to impose import quotas on special commodities, these written comments are being submitted without request for oral participation.

Murphy Oil Corporation believes in free trade and enterprise. We, therefore, deplore any program of control which interfers with the free interplay of competitive economic forces.

If imports are to be subject to control as protectionist measures, then we strongly urge that such protection be provided through a system of tariffs. Tariffs would at least provide for equitable participation by domestic companies on a purely competitive basis. Equity is difficult, if not impossible, to maintain under a quantitative quota system.

It seems inevitable for control programs to involve problems in administration. The Oil Import Program has been no exception. Unfortunately, however, most of its problems have sprung from the unwarranted regulatory exceptions which have been created and by stretching the program to include unrelated matters. Illustrative of such exceptions are the special treatment accorded Puerto Rico, petrochemical participation within the oil program and credit allowed for low sulphur crude to combat air pollution. Even so, we nevertheless recognize the need to preserve flexibility of administration in order for the Oil Import Program to accomplish its stated purpose. The volume of foreign oil required to supply the shortage between domestic production and demand will necessarily fluctuate. Consequently, the adoption of the captioned bill or other similar legislative proposals which prescribe the maximum level of permissible oil imports is contrary to this concept and disregards this fact.

The rigid limitation of petroleum imports into Districts I–IV to a quantity not exceeding 12.2% of production of crude petroleum and natural gas liquids in those districts is impractical. Available data indicate no increase in productive capacity within these districts in the foreseeable future. On the other hand, demand within these districts is expected to increase at the rate of approximately 3% per year. Any oil program must therefore allow for the importation of that varying quantity of foreign oil required to supplement domestic supply. Further, it must also recognize the necessity of importing crude oil in sufficient volume to allow the domestic producing industry to maintain adequate reserve capacity for use in any emergency.

The United States not only needs but requires increasing quantities of foreign oil. We therefore urge that the Secretary of Interior be permitted to retain the authority to establish the maximum level of oil imports in order to maintain a healthy relationship between supply and demand, capable of meeting any national emergency which might arise. We further urge that no legislative restraints be adopted which would lead to the imposition of either direct or implied quota control on oil imports from Canada. Canadian oil is equally secure from the perils of war, readily available by pipeline in quantities required to augment domestic production and competes fairly with domestic crude.

It is clear that Congressional attention is presently being directed toward the establishment of controls on the importation of many different commodities. Justification for the imposition of such restraints is grounded upon the alleged need to protect American markets from cheap competitive imports. If political judgments, however, must be injected into economic processes, then an increased tariff would be far preferable to a more restrictive quota. Such a tariff would have equal application and provide an enlarged source of needed revenue.

We respectfully request that this written statement be included within the record of such public hearing in order that these comments might be made available to the distinguished members of your committee.

Yours very truly,

CHARLES E. COWGER.

AMERICAN PUBLIC POWER ASSOCIATION,
Washington, D.C.

Hon. RUSSELL LONG,
Chairman, Senate Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR SENATOR LONG: The American Public Power Association represents more than 1,400 local publicly owned electric utilities in 46 States, Puerto Rico and the Virginia Islands. We are submitting this letter to express APPA opposition to S. 2332 and any similar proposal which would limit availability of low sulfur residual fuel oil, and request that this letter be made a part of the record of your present hearings on import quotas.

Increasing concern about air pollution has been evident throughout the Nation in recent years. One potentially dangerous pollutant is sulfur dioxide, which is emitted by burning fuels with high sulfur content.

In an attempt to curbe SO emissions, Los Angeles County promulgated regulations regulations in 1959 restricting the use of fuel oil each year between April 15 and November 15 to that fuel oil containing less than .5% sulfur by weight. These restrictions were subsequently expanded to include the period between November 16 and April 14 of the following year, unless there is an insufficient quantity of low sulfur fuel.

There is no supply of fuel oil with less than .5% sulfur by weight presently existing in the Los Angeles area. Electric utilities in the area have used natural gas between April 15 and November 15 and have been forced to use fuel oil with a higher sulfur content during the rest of the year.

Because of this stituation, the Department of Health, Education, and Welfare filed a brief in February, 1966, with the Federal Power Commission, asking FPC approval of applications to increase the supply of natural gas to the Los Angeles area. On July 26, 1966, the Federal Power Commission denied that application which would have supplied the greater quantity and continuity of natural gas to that area.

Two subsequent Federal actions could have a beneficial effect in reducing air pollution in the Los Angeles area and allow the Los Angeles Department of Water and Power to comply with the intent of the air pollution legislation by using residual oil with low sulfur content.

The first action was the Presidential Proclamation expanding the definition of residual fuel oil to include oil of lower viscosity. This would enable imports of greater quantities of low sulfur fuel oil.

The second Federal action was the issuance of regulations on October 4, 1967, by Secretary of the Interior Stewart Udall, to provide an incentive for development of low sulfur fuel oil. These regulations would allow producers of low sulfur residual fuel oil, used for compliance with local air pollution laws, to import additional amounts of crude oil. The regulations are only applicable to District V, which includes the State of California.

Both actions are essential to reducing the Los Angeles air pollution problem. The first will allow increased importation of residual fuel oil with low sulfur content. The second will allow increased imports from those countries, such as Sumatra and Indonesia, which produce low sulfur crude oil but have no facilities to produce residual fuel oil from the crude oil.

S. 2322 would overthrow these regulations. This bill would restrict importation of both low sulfur crude oil and low sulfur residual fuel oil as defined in the modification of Presidential Proclamation No. 3279. It would further set exact limitations on importation of petroleum and provide that future import of petroleum be reduced.

Flexibility is essential if the Nation is to properly combat air pollution. Inflexibility is embodied in S. 2332, which would prevent the President and Secretary of the Interior from acting quickly to abate an air pollution problem.

Standards for air pollution control have proven effective in the Los Angeles area; however, standards for pollution abatement can have no beneficial effect if they prove impossible to achieve. In the case of use of low sulfur residual fuel, achievement of the objectives sought requires cooperation of the Federal government. Cooperation that has been achieved to date would be erased by enactment of a bill such as S. 2332.

Although the immediate problem is that presented by the Los Angeles area situation, longer range problems exist. One relates to other areas wishing to implement air pollution standards. Another relates to the decreasing production of residual fuel oil in the United States, coupled with an increasing demand for this product.

Presently the Los Angeles area has the most stringent air pollution regulations in the Nation. As the concern for air pollution and the crisis of air pollution mount, greater attention will be given to restrictions on sulfur dioxide emissions. New York already has plans calling for an eventual reduction to fuel containing 1.0% sulfur by weight. Compliance with such restrictions will require a flexible policy regarding the importation of low sulfur crude oils and low sulfur residual fuel oils.

Residual fuel oil is an oil refinery byproduct. Because of this fact, production of residual fuel oil depends upon the demand for other refined oil products. Production of residual fuel oil in the United States declined from 453 million barrels in 1952 to 296 million barrels in 1962. During the same period, use of residual fuel oil for power production alone increased from 67 million barrels in 1952 to 86 million barrels in 1962. Total U.S. demand for residual fuel oil in 1962 was 545 million barrels.

It is important that flexibility be maintained in import policy relating to both residual oil and crude oil to be made into residual oil, for three basic reasons:

1. Compliance with Los Angeles area air pollution regulations;
2. The likelihood that area air pollution regulations will be adopted elsewhere; and
3. Because U.S. production of residual oil is declining in the face of increasing demand, it is desirable that production of residual oil from imported crude oil be encouraged.

The American Public Power Association urges the Committee to reject any proposal that would (1) overturn existing policy regarding importation of low sulfur residual or crude oil, or (2) establish an inflexible and restrictive limitation on oil imports.

Sincerely,

ALEX RADIN, *General Manager.*

BUCKLEY & SCOTT,
Watertown, Mass.

Senator Russell Long,
Senate Office Building,
Washington, D.C.

DEAR SENATOR LONG: I'm a New England Fuel oil dealer, but have served for the past six years on the National Petroleum Council and have, therefore, had an opportunity to meet independent producers, stripper well operators, major oil company people, and even meet you on one or two occasions, though momentarily, I'm sad to say.

I feel it important to go on record at this time regarding your Senate Bill 2332.. I feel strongly that on the subject of balancing supply and demand in the petroleum industry that while the National Defense issue is, of course, paramount, that it is unwise to attempt to legislate narrow restrictions and far safer, for all concerned, to leave in the hands of the Department of the Interior the authority to control imports of crude and finished products.

The program has worked pretty well, over the past five or six years, because there has been a continuing dialogue among all interests.

We are, therefore, opposed to the passage of Senate Bill 2332.

Sincerely yours,

THOMAS J. SCOTT,
President.

HOUSTON, TEX.

Hon. RUSSELL LONG,
Majority Whip of U.S. Senate, Senate Building,
Washington, D.C.

DEAR SENATOR: The purpose of this letter is to inform you and your Committee which is to have a hearing on October 18, 1967 on Senate Bill 2332 for the Amendment of National Security Provision (19 U.S.C.A. 1862) of the Trade Expansion Act of 1962 to specifically add the following new subsection: "(e) Imports of petroleum into Districts I–IV shall not exceed 12.2 per centum of production of crude petroleum and natural gas liquids in those Districts during the most recent appropriate period for which U.S. Bureau of Mines statistics are available * * *" that I am offering my wholehearted support of this bill. For your information, I am an independent oil and gas operator domiciled in Houston, Texas. I was the originator of the Texas Landowners and Independent Oil and Gas Producers Association which has long fought for limiting oil imports and to encourage domestic drilling. Because of the constant flood of foreign oil my drilling activities have been curtailed to no more than four or five wells each year. Also, because of the importation of oil this has kept oil allowables in the State of Texas to an all time low and discourages risk capital from investing in wildcatting and even development drilling in the State of Texas.

I would like you and your Committee to know that in 1952 there were approximately 1500 rigs operating in the State of Texas. Today there are slightly more than 300 rigs a month operated throughout the year. As a result of this radical drop in rig count, oil and gas reserves in the State of Texas have fallen to an all time low. As a matter of fact, during the recent Sues crisis the Railroad Commission of Texas could not raise the allowables more than 50% of capacity because the wells could not make their allowables. In effect, as a representative of Superior Oil Company told the Commission during the crisis, the only thing the State of Texas really had was paper allowable. Very few wells, if any, were able to make the allowables that were assigned to the wells. In view of this, it was quite obvious to me and many other oil men that the domestic reserves of this nation are in a state of peril. As our distinguished Senator Ralph W. Yarborough of Texas said in his speech before the Senate on August 23, 1967, hardly a day passes that the newspapers do not show that a rig auction is being carried on in some part of Texas. I realise you gentlemen will hear statements to the effect that without foreign oil this nation cannot buy cheap gasoline. I would remind you and your distinguished Committee that the several statements coming from major oil companies this past year reflect that they show more profit from domestic producing wells than their foreign producing wells. Therefore, the argument that will be used by lobbyists for the major international companies just will not hold water. If we are to keep the price of gasoline and oil at a low and competitive price to the general public, America must once again look to the domestic producer to find oil and give him relief at the gasoline pump. Furthermore, if we should, and let us all hope it never happens, be engaged in another global war, we would then only be able to rely on domestic reserves to keep our war machines going. The submarine fleets of our enemies could absolutely destroy our tanker fleets coming from foreign oil fields to our shores.

Unless American has the foresight and good judgment to see this possible crisis existing, we could jeopardize the entire safety and welfare of every American and all citizens of the free world.

I want to take this opportunity to thank the Congress of the United States for having the foresight and judgment in continuing the depletion oil allowance. This has been a lifesaver to the independent oil man who must risk capital in finding reserves. However, unless the independent segment of the oil and gas industry can have some protection on the amount of imports of oil into this nation, his existence is almost at an end.

In closing, I will say again because the future safety of this nation in time of war depends upon this country's domestic reserves, I urgently request this most Honorable Committee promptly report out of committee this bill and urge the entire Senate to enact it into law.

I thank you for considering my position in this matter, and I request that this will be made a part of the hearing on the bill.

Very truly yours,

STANLEY C. WOODS.

MAINE OIL & HEATING EQUIPMENT DEALERS ASSOCIATION,
Portland, Maine.

Mr. THOMAS VAIL,
Chief Council, Committee of Finance,
New Senate Office Building,
Washington, D.C.

DEAR MR. VAIL: In behalf of over 300 members of the Maine Oil & Heating Equipment Dealers Association I would like to go on record in their behalf in opposition of Senator Long's bill No. S2332 which is against all imports of No. 2 fuel oils.

I am sure you are aware of the seriousness of this bill, and the effect it will have on the State of Maine where over 85% of the homes are heated with No. 2 fuel.

This Association will greatly appreciate your careful consideration and understanding in our behalf.

Very truly yours,

LEONARD MULLIGAN,
President.

STATEMENT OF SOUTHERN CALIFORNIA EDISON CO., SUBMITTED BY ALAN M. NEDRY, SPECIAL COUNSEL

Senate Bill 2332, while purporting "to promote the general welfare, foreign policy, and national security of the United States," would actually compromise both national security and the general welfare. This is because of its threatened impact upon the supply of raw material fuel oil resources required by Southern California Edison Company, the largest electric generating agency in Southern California and the fourth largest in the nation.

These resources are urgently needed for conversion to electric energy to supply the public in the Company's service area, including various important national defense industries and military installations. And, of utmost importance to Southern California, the fuel oil is required in a form that meets the rigid quality requirements of air pollution control regulations which have been enacted and enforced by local authorities in the interest of the general welfare.

Southern California Edison Company, through a wholly-owned subsidiary, is a producer of crude oil in California, is a working-interest owner in three operating oil producing units of the Wilmington Oil Field and sells crude oil, raw material gasoline and liquified petroleum gases from its share of production. So Edison is well aware of the advantage to a domestic crude oil producer of being protected by law from foreign competition.

It happens, however, that Edison, as a public service electric generating agency, has direct responsibilities in the interest of national defense and the public welfare which are, in turn, dependent upon the status of important segments of the petroleum industry in District V. These responsibilities persuade Edison that it would be an error for Congress to freeze such companies' access to foreign-source raw material needed by their customers, such as Edison.

Southern California Edison Company (Edison) serves 2.2 million customers in a 65,000 square mile service area of Central and Southern California and part of Nevada. This area has a population of about 7 million people. Edison supplies the electric power requirements of numerous aerospace industries and important Department of Defense installations, such as the Long Beach Naval Shipyard and the Edwards, George and Norton Air Force Bases.

Edison's generating capacity totaled 7.8 million kilowatts as of December, 1966, of which 6.6 million was oil and gas-fired thermal generation representing an investment of $760,000,000. In 1966, Edison's fuel consumption was equivalent to an average daily use of 129,765 barrels of fuel oil. Also, 2.1 million kilowatts of oil and gas-fired thermal generation were under construction.

One nuclear generating station, of which Edison's share will be 800,000 kilowatts, is in initial test operation.

In 1971, Edison will serve about 2.67 million customers and will have an annual peak demand of about 10.0 million kilowatts. This will require an annual fossil fuel thermal energy supply totaling 330,000 billion BTU's, equivalent to an average of 143,350 barrels of fuel oil a day.

The amount of oil that will be needed in 1971, or for that matter any future year, cannot be definitely determined because the operation of Edison's thermal generating stations is subject to strict air pollution control regulations under local police powers that have the effect of requiring the use of natural gas whenever available. A substantial part of the gas supply is variable and unpredictable, but it is estimated that gas will supply about 75% of the 1968–1972 fuel requirements. Therefore, Edison's oil requirements will vary from 6 to 12 million barrels a year.

Efforts have been and are being made by Edison to increase and stabilize the gas supplies to conform with air pollution control objectives of the public, but it is anticipated that Edison will have to continue using millions of barrels of oil each year. However, the oil refining industry has underway plans to reduce fuel oil production most substantially in District V.

As a result, there is a downward trend in residual oil availability in District V and, with present gas supply arrangements, no reduction in the magnitude of seasonal oil requirements. This can result in deficient oil supplies to meet peak wintertime needs for electric generation. This was experienced in the winter of 1964–65 and can happen again in any cold winter in California.

The U.S. Gulf Coast, it should be noted, is not a reliable source of supply for backstopping California fuel oil deficiencies.

Because of the need to backstop fluctuations in available gas supplies with oil, it would not be prudent for Congress to prevent importing foreign source oil on very short notice to cover gas deficiencies.

Under the Oil Import Control Program, there is an established procedure, through application to the Oil Import Appeals Board, for the swift handling and disposition of emergency requirements such as may be brought about by the combination of cold winter weather and deficient domestic supplies of oil and gas. This procedure has worked well. Under the proposed legislation, however, it would take another Act of Congress each time emergency relief is needed.

Edison's problem of assuring continued access to an adequate quantity of oil fuel to backstop interruptible gas supplies is further complicated by the circumstance that such oil resources must be of low sulfur and low ash content in order to comply with the objectives of local air pollution control authorities. The importance of this complication cannot be overemphasized.

Historically, most of Edison's oil fuel requirements have been supplied by Los Angeles Basin area oil refineries. However, because of the public pressure for air pollution control compelling immediate changes in fuel utilization practices, the Company is now of the view that most, if not all, of its oil supply will have to be switched from conventional domestic cracked residual fuel oil, which contains about 2 percent sulfur, to a low sulfur product of less than 0.5 percent sulfur, commencing as soon as possible. The Company's fuel supply program is being adjusted to such a change.

The local air pollution control authorities, as well as the United States Public Health Service of the Department of Health, Education and Welfare, have taken the position that burning high sulfur fuel oil causes deleterious effects upon the environment. Laws of the State of California prescribe restrictions upon the opacity of power plant stack gases which cannot be met when burning fuel oil procured from domestic sources. Local regulations adopted to control air pollution outlaw the burning of oil fuels having a sulfur content in excess of 0.5 percent by weight except when gas is not available.

As early as 1955, Edison was convicted in a criminal action filed by the Los Angeles County Air Pollution Control District in the Redondo Beach Municipal Court of violations of the Air Pollution Control Act. These violations were due to the combustion of conventional domestic residual fuel oil.

Since 1955, because of its inability to comply with air pollution requirements, Edison has been unable to obtain permits from the Air Pollution Control District of Los Angeles County to operate its steam electric generating stations. It has been permitted to operate only under variances granted by the Hearing Board of the Air Pollution Control District of Los Angeles County. Such variances may not be granted for a period longer than one year. Operating with conventional domestic residual fuel oil, Edison has no assurance that such variances will be continued.

Edison has engaged in an extensive and continuing research and development program in accordance with the requirements of the variances granted to it. This program has involved all aspects of power plant air pollution control, ranging from a determination of the kind and amount of materials emitted by oil and gas-fired boilers to the actual installation and testing of full-scale equipment designed on the basis of pilot plant studies to control these emissions. Edison has employed recognized authorities and consulting organizations in the air pollution control field to supplement the efforts of its own engineering staff and has worked closely with boiler and control equipment manufacturers and with the local air pollution control agencies. No means, however, have as yet been devised which will economically remove from stack gases the substantial quantities of sulfur oxides which are produced whenever California fuel oils are burned.

Recently, with the construction and operation of the two large 450-megawatt generating units at its Alamitos Generating Station and the two large 450-megawatt generating units at its Redondo Generating Station, Edison has been subjected to indignant public protests and complaints claiming spotting damage from rust and acid allegedly emitted from the Company's plants when burning fuel oil. The Control Officer of the Air Pollution Control District of the County of Los Angeles has anounced that he will take every means to prevent the construction of any additional oil or combination oil and gas-fired boilers in Los Angeles County. Also, the Public Information Officer of the District has announced that unusual litigation will be commenced against power plant operators directed toward eliminating objectionable atmospheric emissions from fuel oil combustion.

Public mass meetings have been held in the communities in which Edison's generating stations are located, and a large delegation from these communities appeared at recent hearings held by the Hearing Board of the Los Angeles Air Pollution Control District upon Edison's application for a continuance of the necessary variances to operate its plants in Los Angeles County. It seems apparent, from the public pressures being exerted upon the Air Pollution Control District, that the use of the conventional California fuel oils will not be tolerated if low sulfur, low ash fuel oils can be supplied to the generating stations.

Southern California Edison Company has long been interested in the administration of Oil Import Regulations as it has a direct influence upon Edison's operations. In March of 1965, Edison submitted its views on the need to import residual fuel oil at the Department of the Interior's Oil Import Control Program hearings. In response to an invitation from the Director of the Office of Emergency Planning, Edison filed a statement with the Director in June of that year summarizing its views regarding national security aspects of residual oil imports.

More recently, in May of 1967, Edison submitted data and testified before the Administrator of the Oil Import Administration on the need to import low sulfur fuel oil and low sulfur crude oil to meet the oil quality requirements for steam electric generation in Southern California when gas is not available.

On July 17, 1967, by proclamation No. 3794, President Johnson modified the Oil Import Program as established by proclamation No. 3279 to provide for the importation of low sulfur crude oil and low sulfur fuel oil as needed to meet air pollution control objectives. Then, on October 3, 1967, Secretary Udall issued oil import regulations implementing proclamation No. 3794, which permits importing into District V low sulfur crude oil equal in volume to the quantities of low sulfur residual oil sold under contract to meet the requirements of local air pollution control regulations.

This is a current example of how the program, under its present administration, can be adapted to essential needs as they develop. And, of course, this is why we are deeply concerned with the proposed legislation which would abrogate the low-sulfur imported oil program and would frustrate the efforts to improve air quality by air pollution control authorities representing more than 7 million people in southern California.

When Senate bill 2332 was introduced on August 23, 1967, it was explained that the bill basically is designed to write the present mandatory oil import program for crude oil and light products into law, and that the need for this is due to actions taken by the oil import control administrators which have seriously threatened the stability and integrity of the 12.2-percent limitation on the importation of crude oil into districts I–IV. Specific administrative actions, which were listed as detrimental to the import program, are those involving petrochemical feedstocks, foreign trade zones, authorization for imports of asphalt outside the 12.2-percent limitation, definition of No. 4 fuel oil as residual fuel oil and, lastly, the recent proposals regarding low-sulfur fuel oil aimed at alleviating the air pollution problem.

It was then stressed that "the import program has one and only one purpose, and that is to maintain a healthy, vigorous domestic petroleum industry in the interest of national security."

It was also said that the import program cannot be maintained as an effective instrument "if it is to be used to cure the economic ills of Puerto Rico, the Virgin Islands or Guam, or if it is to be used to solve the worldwide competitive problems of the petrochemical industry, or if it is to be used to solve a localized asphalt or other product supply problem, or if it is to be used to solve the pollution problem."

Also, it was explained that "if the basic objective of the mandatory Oil Import Program is to be realized, it is necessary that we have a program which prevents the Western States from becoming increasingly dependent on imports. The basic objective of the Program would be defeated if the large and important area of District V were permitted to become increasingly dependent upon foreign sources for its oil needs."

It was also stated that "the Bill . . . does not cover residual fuel oil."

This Bill, which is designed to fix the mandatory Oil Import Control Program in such a way that it is completely inflexible, is one possible extreme solution to a most vexatious problem. It closely reflects the views of independent oil producers whose position has been outlined in numerous presentations made to the Oil Import Control Administration at various hearings and who genuinely believe they are being hurt by the administration of the Program.

There is another solution to this problem and that is to completely eliminate all controls which Congress should also consider. The case for this solution is outlined in two perceptive articles that appeared in the issues of Fortune of February and April, 1965, titled, "The Boiling World of Oil" and "U.S. Oil; A Giant Caught in its Own Web." However, this, too, is an extreme solution and one which we do not recommend.

There are arguments for eliminating controls completely which are hardly more extreme than the solution proposed by Senate Bill 2332, which would make the Program inflexible and unable to adapt to the changing needs of our times. These include the needs of our Company, and the 7 million people it serves, for access to raw energy supplies suitable for conversion to electric energy in existing facilities which are designed to use oil and gas and of such quality as will comply with local air pollution control laws.

Because we must have access to such resources, and they are not available as needed from domestic sources, we recommend a continuation of the present Oil Import Control Program as administered by the Department of the Interior. We consider this to be the best middle-ground solution to the problems involved in balancing the total public interest with the strident demands of the domestic independent oil producers. We believe that Congress, when setting down the ground rules for administration of the Program under the provisions of the Trade Expansion Act of 1962, specifically contemplated a flexible program that would consider the various factors involved in the general public interest.

Congress specifically considered the national security aspects which are cited so often as the basis upon which domestic oil interests should be protected from competition. This was done in the provisions relating to safeguarding national security.

Subparagraph (a) of (19 U.S.C.A. 1862) of the Trade Expansion Act of 1962 provides that "No action shall be taken . . . to decrease or eliminate the duty or *other import restriction* on any article if the President determines that such reduction or elimination would threaten to impair the national security."

Subparagraph (b) provides that "Upon request of the head of any department or agency . . . the Director of the Office of Emergency Planning . . . shall make an appropriate investigation . . . to determine the effects on the national security of imports of the article, which is the subject of such request. . . . If . . . the Director is of the opinion that an article is being imported . . . in such quantities as to impair the national security, he shall advise the President, and, unless the President determines that the article is not being imported . . . in quantities . . . as would impair the national security . . . he shall take such action . . . as he deems necessary to adjust the imports . . . so that such imports will not so threaten to impair the national security. . . ."

Under the provisions of Subparagraph (c) of (19 U.S.C.A. 1862), Congress set up the ground rules for such required investigation by the Director of the Office of Emergency Planning and the President, as follows:

"DOMESTIC PRODUCTION FOR NATIONAL DEFENSE; IMPACT OF FOREIGN COMPETITION ON ECONOMIC WELFARE OF DOMESTIC INDUSTRIES

"(c) For the purposes of this section, the Director and the President shall, in the light of the requirements of national security and without excluding other relevant factors, give consideration to domestic production needed for projected national defense requirements, the capacity of domestic industries to meet such requirements, existing and anticipated availabilities of the human resources, products, raw materials, and other supplies and services essential to the national defense, the requirements of growth of such industries and such supplies and services including the investment, exploration, and development necessary to assure such growth, and the importation of goods in terms of their quantities, availabilities, character, and use as those affect such industries and the capacity of the United States to meet national security requirements. In the administration of this section, the Director and the President shall further recognize the close relation of the economic welfare of the Nation to our national security, and shall take into consideration the impact of foreign competition on the economic welfare of individual domestic industries; and any substantial unemployment, decrease in revenues of government, loss of skills or investment, or other serious effects resulting from the displacement of any domestic products by excessive imports shall be considered, without excluding other factors, in determining whether such weakening of our internal economy may impair the national security."

Let us examine these ground rules and see how continuation of the Oil Import Control Program, as now administered in conformance with such rules, provides a flexible program that will meet national security and general welfare requirements. These are *not* static considerations, as the proposed legislation indicates.

The ground rules require that the Director and the President shall recognize the close relation of the economic welfare of the nation to our national security and that they shall consider the impact of foreign competition on the economic welfare of any individual domestic industries. Likewise, any unemployment, decrease in revenues of government, loss of skills, or other serious effects resulting from the displacement of any domestic products by excessive imports shall be considered *without excluding other factors* determined upon whether such weakening of our internal economy may impair the national security. It cannot be demonstrated that the Oil Import Control Program, as now administered, has impaired the national security. Instead, the record of its administration shows that the program as now handled will permit adustments to meet needs as they evolve.

Administration of the current Oil Import Control Program has provided a very good example of the workability of these ground rules to insure that the national defense is not impaired. This was the finding, published on December 18, 1965, by the Director of the Office of Emergency Planning, following his investigation of the national security basis for control of imports of residual fuel oil intended for use as fuel. He concluded that importation of residual fuel oil was not adverse to the national defense. Subsequently, imports of residual oil in Districts I–IV were substantially decontrolled. But it was not then necessary to lift the ban in District V because supplies were deemed adequate in volume, even though deficient in quality for air pollution control. *Now this situation has changed*, and the District V surplus is diminishing, according to Mr. Stark Fox, Executive Vice President, Independent Oil and Gas Producers of California. He has commented on the trend to the production of more valuable products in an article in the March, 1967, California Oil World, as follows:

"The fact is that refining operations in District V no longer result in a surplus of residual fuel. . . . This situation has resulted from the fact that residual yields have been reduced by new refining processes. In 1959, for example, residual yield was 23.5% of the total charge to refineries; in 1966, it was off 3.5 percentage points to 20%."

So, District V should now be treated the same as Districts I–IV.

It was presumably on the basis of this finding that the proposed Bill, as explained in the Congressional Record of August 23, 1967, purportedly does not cover residual fuel oil. But that simply is not correct, because it would continue the prohibition upon imports of residual oil into District V.

The bill, as proposed, would discriminate against the District V States, as it would permit imports of residual oil into Districts I–IV. The needs in that area for low sulfur fuel oil may be supplied from the world market, while, in District V, there would be no quota for fuel oil. The effect of the proposed legislation would be to prevent District V from having access to imported low sulfur residual fuel oil. Therefore, District V electric generating agencies would be exposed to not being able to satisfy their requirements, either qualitatively or quantitatively, as required by local air pollution control regulations, unless Congress again wished to take up the matter. And this it most certainly would have to do from time to time, because this is indeed a changing situation, as Congress well knows from its struggle with the air pollution problem.

We believe this example of flexible administration in the past confirms that the Oil Import Control Administration can and will work, and that present procedures for regulating oil imports will adequately protect domestic producers. Also, the evidence that frequent changes and tailoring of the program will be needed in the future is good reason for retaining the present plan. It is founded upon a realistic and workable assessment, by both the Director of Emergency Planning and the President, of the national security issue, giving consideration to the whole public interest.

We are pleased to have had an opportunity to explain how this proposed legislation, if enacted, would adversely affect Southern California Edison Company and more than 7 million Californians.

Thank you.

STATEMENT OF THE GREAT NORTHERN OIL COMPANY, SUBMITTED BY JOHN J. FLYNN

The apparent purpose of Senate Bill No. 2332 is the further implementation of the Mandatory Oil Import Program. However, the Bill fails to recognize two vitally important aspects of the Program which bear heavily on the national defense:

1. The hemispheric concept of crude oil supply, and
2. The reliance on Canadian crude oil by refiners in crude deficit areas.

The purpose of the Mandatory Oil Import Program is to serve the needs of national defense in two ways. First, by insuring the availability of crude oil. Second, by insuring sufficient refinery capacity.

The Statement by the President, which was issued with his Proclamation of March 10, 1959, instituting the Mandatory Oil Import Program, said in part, "The new program is designed to insure a stable, healthy industry in the United States capable of exploring for and developing new hemisphere reserves to replace those being depleted."

The concept of "developing new hemisphere reserves" used by the President in carrying out the mandate given him by Congress gave explicit recognition to the obvious fact that the more tightly its resources are bound together, the stronger the North American continent is going to stand. In other words, contiguous overland resources should be considered integral with ours in time of national emergency.

The logistics of emergency crude oil supply are plain. If our overseas sources are not available (perhaps resulting from a crisis in the Middle East such as the present one) we must rely indiscriminately on domestic supplies and on overland importation of Canadian crude. To make Canadian crude both available and usable to us in time of emergency, it is necessary that both adequate transportation facilities and adequate refinery capacity exist. To now adopt a policy of discrimination, in any form, against Canadian crude—rather than a policy of preparedness to transport and process it—is to threaten to impair the national security.

In recognition of these plain facts, the policy of acceptance of Canadian overland crude for national defense was established almost simultaneously with the inception of the Program. This policy has been carefully examined and reexamined over the past eight years by the Department of the Interior, the Department of the Defense and three Administrations.

In addition to improving the availability of Canadian crude, the acceptance of overland crude made possible the construction of refinery facilities to process it.

Our refinery was constructed pursuant to a Certificate of Necessity issued by the Department of Defense with the specific intention of processing Canadian Crude. That intention has been honored down to the present time.

Moreover, by establishing refining capacity in a crude deficit area, the national security goal of decentralizing industry was advanced.

Unlike overseas crude, Canadian crude is not cheap and therefore it is not corrosive to markets. The laid down cost of Canadian crude at Great Northern's refinery is not less than the laid down cost of comparable domestic crude paid by mid-continent refiners who compete with us.

As it is, more routes for transporting Canadian crude into the United States should be constructed. Presently, there is a dangerous centralization of transportation in a single main pipeline into Districts I–IV and into District V.

Accordingly, Senate Bill No. 2332 is seriously deficient in failing to recognize the necessity of accepting Canadian crude for national defense, particularly where such crude is flowing to the Northern Tier crude deficit area.

The continued acceptance of Canadian crude will not jeopardize in any way the objectives of the import control program. Canadian crude is not cheap in the crude deficit area of the Northern Tier Refiners. On the other hand, its continued availability will preserve these important objectives of the Mandatory Program:

1. Assuring the availability of Canadian crude in time of national emergency.
2. Assuring the existence of United States refining capacity to process Canadian crude in time of emergency.
3. Encouraging the geographical decentralization of United States refining facilities, thereby rendering the industry less vulnerable to enemy attack.

Statement of John K. Evans, on Behalf of Business Development Fund, Inc., Washington, D.C.

SUMMARY

a. Oil import quota legislation is not necessary since the Secretary of the Interior has publicly stated that the Administration will keep imports within the 12.2 per cent limits.

b. The present oil import control program is effectively accomplishing all aspects of our national security needs.

c. The program can and should be used to encourage the finding of new domestic oil reserves plus the location of refining domestic boundaries of the U.S.A. and its territories.

d. Any formalization of our oil import quota program in new legislation would cause our nation irreparable harm in our world trade and result in other nations taking discriminatory action against our goods and services.

STATEMENT

Oil Import quotas were adopted as a means of restricting oil imports by President Eisenhower. Under date of March 10, 1959, a proclamation was published signed by the President formally putting into action an oil import quota program to restrict imports as of March 11, 1959. Since that date there have been amendments and changes in the original proclamation but the basic control and restriction program has remained in effect.

A non tariff barrier such as oil quotas is not the most equitable and effective manner in which to control imports of any commodity. Yet, in view of our international trade agreements and treaties under G.A.T.T. there was no alternative once the then Administration had reached a decision that restrictions on oil imports were necessary for national security reasons.

The key to this problem is national security. Our nation has just experienced another energy crisis caused by the embargo and shut down of Arab pipelines and the Suez Canal. We live in an age of peril and since oil is the primary source of energy and power for our armed forces, our total procurement of $1,500,000,000 of oil products exceeds by far any other commodity, we must give priority to the concentration and location of both oil reserves and transportation and refinery facilities within the domestic and territorial confines of the U.S.A. Our secondary source of supply must be in the Western Hemisphere. We must exert every effort to diversify to the greatest possible degree the sources of crude oil production with our own domestic sources being given first priority and Western Hemisphere second priority. Oil is a diminishing resource and already it is becoming more difficult and more expensive to locate new oil fields in the U.S.A. There will come a day when our nation will be a have not oil nation. It must be our policy to guard and protect our oil wealth so that as we phase out of oil energy other conventional and non conventional fuels will fill the energy gap. In this evolutionary period no narrow segment of our national life can be permitted to mold or dominate our oil policy. Our policy must be based on the pragmatic realities of our national security and interest.

The question is how to implement our foreign policy on oil energy. During this transition period we must have a vital and dynamic domestic oil and refinery and transportation industry. The oil import control program if intelligently and pragmatically applied can accomplish the above objectives. It can also be used to provide incentives for domestic oil producers to search for and find new oil reserves, and to encourage the location of refining and transportation facilities in the U.S.A. This can all be accomplished without one added cent of cost to the taxpayer or consumer.

Relative to the development of new domestic oil fields there is attached as Exhibit I an outline of a plan developed by Ralph W. Snyder, Jr. of the Oil Import Administration as the thesis he prepared for the Industrial College of the Armed Forces. This plan if adopted would permit our country to have its "cake and eat it" by stimulating new domestic crude oil capacity while at the same time permitting foreign crude oil imports. It would mean that the oil imports program was being used to benefit the entire Nation and not any narrow segment of our country.

The next area of potential use of the oil imports program in a creative manner is that of refinery and transportation facilities. Again, this restrictive trade program can be applied and used in a positive manner so as to benefit all consumers of energy while meeting the needs of our national security program. Here the emphasis should be on programs that encourage the processing of Western Hemisphere crude oil in domestically located refineries. This can be done in such a manner so as to provide a stimulus to economically depressed areas in our country through the selective use and location of Foreign Trade Zones. Problems of air pollution can also be solved, insofar as pollutants emitted by our industrial oil fuel consuming plants and utilities, are concerned, by again using a selective approach to the location of Foreign Trade Zones. In this latter regard a spokesman for the American Petroleum Institute recently stated that to reconstruct and install sulfur removing refinery facilities in the Caribbean refineries would mean a capital expenditure of about the same size as the original cost of such refining facilities. We must clean our air and we should learn from bitter recent past experience that our oil lifelines can be shut off if production and refining facilities are located in foreign countries. Therefore, again the oil import program can be imaginatively and effectively used to encourage the locaton of refining facilities within the domestic and territorial confines of the U.S.A. Secretary Udall only last month announced the adoption of a program wherein oil import quotas were used as an incentive to produce additional low sulfur fuel oil in West Coast refineries.

Unless we intelligently, and pragmatically apply and use our oil imports program we can cause irreparable harm to our national security by discouraging the development of our domestic oil resources and by exporting our domestic refinery facilities to foreign countries. In this age of peril and rapidly changing conditions it is essential that the Secretary of the Interior have a free hand to adjust and control our oil import program. Time and time again, Secretary Udall has publicly stated that he can and will maintain the present 12.2 per cent ratio. Just to quote a recent statement at his press conference on September 21, 1967, Secretary Udall in reply to the question, "Do you think you are going to be able to maintain this 12.2 per cent ratio?" stated "Of course we can. There is no question about it." There has never been any question as to the need for an import control policy by the oil industry—the National Petroleum Council, an organization that speaks for all segments of the domestic oil industry in a report on "Petroleum Policies for the U.S.A." and submitted to Secretary Udall under date of March 1, 1966, stated "National security and assurance of adequate long run supplies at reasonable costs for consumers require limiting total petroleum imports, including products, to a level which will provide opportunity for and encourage expansion of all phases of domestic petroleum operations in keeping with increased demands insofar as practicable."

Every facet of our nation's security and economic interests requires that we restrict imports commensurate with all the factors that affect this highly complicated issue. Yet, there are other trade policies that are affected and any attempt to formally freese import levels via legislation would cause disastrous results—not only in our energy economy but in all aspects of our trade program.

A negative move such as the one contemplated in this bill would unravel most of the Kennedy Round. The latter is not only a collection of reciprocal trade concessions but also an over all commitment by our country to the principles of freer world trade. It is a symbol of our sincerity and good intentions to the entire world. Any move on our part to adopt a vast non tariff trade barrier policy and program would instead create an environment in which all trading nations would be encouraged to adopt retaliatory measures against our goods and services.

In conclusion if our oil industry is in trouble because of imports let us find out the facts. Such a study should be made by a high level commission on which all major interests, producer and consumer, would be represented. Constructive answers could be found that would be to our national interest as well as to all aspects of the competitive factors that exist in the market place.

Statement of Ralph W. Snyder, Jr., Oil Import Administration, on Import Quota Oil Conservation Plan

THE PLAN

The plan, which supplements the existing import program, offers domestic producers an opportunity to withhold up to 50% of their domestic production allowables during a period of one to two years in exchange for crude oil import allocations equal to the quantity withheld from production. After withholding production for the specified period of time, normal production for one year would be required to demonstrate continuing production capability and then the producer would again be offered the same opportunity.

To encourage domestic exploration and development, eligibility would apply to operators who find and develop new fields and reservoirs after inception of this plan and to operators having existing production, but only until January 1, 1971.

Allocations and licenses would be issued by State regulatory bodies or other State agencies who could verify certified production allowables or production capabilities of an eligible applicant. Generally, an applicant would not become eligible until after "discovery allcwables" are produced, exploration and drilling cost are recovered and the field is under controlled production.

Eligible producers receiving crude oil import allocations would use the allocation to bring in foreign oil replacing the domestic oil withheld from production or if the producer chooses to do so he could sell the import allocation.

The plan is designed around a pooling and unit operation concept. Participants would enter into the program on a voluntary basis.

A participants' decision to enter into the program would be made on the basis of economics, long range profit motivation, ability to obtain an agreement with royalty owners and other interested parties in the operations and, of prime importance, a need to obtain an import allocation. Persons who are otherwise eligible to enter the program but choose not to do so or persons who are not eligible would not be affected by the operations of participating parties, if no drainage of properties occur and correlative rights are protected.

THE PURPOSE OF THE PLAN IS FIVEFOLD

1. To channel crude oil import quota benefits directly to the producing industry and more specifically to the individual or firm who curtails domestic production to make room for the imports.
2. To place emphasis on domestic exploration and development as the prime route toward obtaining and improving or crude oil import rights.
3. To curb the tremendous withdrawal from domestic reserves by using greater quantities of foreign oil in meeting increasing demands.
4. To expand the export base of friendly offshore producing nations, thus contributing to the health and growth of those nations while assuring a healthy domestic industry and our own self-sufficiency.
5. To assure that domestic producing fields would be in a state of readiness under controlled production, the volume of which could be stepped up when required.

THE INCENTIVE QUESTION

Why would an eligible operator choose to forego part of his domestic production for an import allocation?

The import allocation has value because of the cost difference between foreign and domestic oil and the profit derived from use or sale of the allocation would be added to the defined limits of revenue expected to be obtained from the domestic reserves of which production is postponed.

EXAMPLE 1 (SIMPLIFIED)

The recoverable oil from a newly developed domestic reservoir is estimated at 5,000,000 barrels after discovery allowables have been produced and exploration and drilling cost have been recovered.

If the average price of the crude oil over the life of the pool is $3.00 per barrel and the pool is depleted in 20 years, total income derived from the pool would be $15,000,000 less lifting cost. Assuming lifting cost to average out at $0.50 per barrel then gross income would be $12,500,000.

However, if the operator elects to exercise his option of exchanging domestic production for import allocations worth $1.25 per barrel and during the course of the reservoir life he postpones production of 1,000,000 barrels in favor of import allocations of an equivalent quantity, his action will add $1,250,000 to the $12,500,000 obtained from production for total receipts from the enterprise of $13,750,000—a 10% gain in total revenue.

EXAMPLE 2 (SIMPLIFIED)

An operator has a production allowable of 600 barrels per day and he elects to produce 300 barrels per day, leaving 300 barrels per day in the ground for one year as "security reserves". The operator receives a crude oil import quota of 300 barrels per day worth $1.25 per barrel. Assuming that lifting cost of the "security reserves" to be $0.50 per barrel and the value of the oil in the ground to $3.00 per barrel, the oil would gross $2.50 per barrel when produced. Thus, the total oil saved would have a value of $273,750 ($2.50 × 300 barrels × 365 days). As compensation for leaving the oil in the ground for one year, the operator would receive an import allocation for 109,500 barrels (300 barrels × 365 days) worth $136,875 (109,500 barrels × $1.25). By leaving the domestic oil in the "security reserves ground bank" for a year, the operator in effect would be receiving interest on his deposit of 50%:

$$\frac{\$136,875}{273,750} \times 100=50\%$$

The following year the operator would produce the "security reserves". Thus, his decision to postpone production for one year would serve to upward adjust the price he received for each barrel of domestic oil involved in the operation to $4.25 ($3.00 + $1.25).

THE TAX QUESTION

Crude oil in the ground, left there voluntarily by an operator, is wealth conserved in the ground for future exploitation. State taxes would be forthcoming when the oil is produced. However, since domestic production voluntarily postponed under the plan would yield Federal revenue by virtue of import taxes assessed against the foreign oil entered and received in lieu of domestic supply, a system could be established through legislation to effect the transfer of collected Federal import taxes to the States. These funds would be used to offset to a degree temporarily delayed State revenue and to cover additional administrative and inspection costs incurred by the States in carrying out this program. This action would be justified on the merit of oil conservation in the interest of national security.

The question of depletion allowances, presently granted under the Federal income tax law, as to its application in respect to domestic production withheld is clear. Proceeds from the disposal of severed natural resources are not obtained until the domestic oil is produced.

A SIGNIFICANT SIDE EFFECT

This plan would act directly toward reducing the maximum oil import level in Districts I–IV under the present (Refiner—Petrochemical Plant) program. The import level of the existing program is established at a ratio of 12.2% of estimated production of crude oil and natural gas liquids for a particular period.

When production is withheld by the producer in favor of an import allocation, the base used in establishing imports in the present program is lowered; thus reducing the level of permitted imports.

EXAMPLE

The production of crude oil and natural gas liquids in Districts I–IV for the calendar year 1967 was estimated at 8,724,000 barrels per day. Therefore, 8,724,000 barrels per day × 12.2% established the maximum import level for 1967 at 1,064,828 barrels per day. If this oil conservation import quota plan had been in effect during this period and producers had exercised the option of withholding 500,000 barrels per day (approximately 6%) of domestic production, then the import level under the present program would have been established as follows:

Estimated Production Crude Oil and Natural Gas Liquids	8,724,000 B/D
Less Production Withheld by Producers	500,000 B/D
Adjusted Estimate of Crude Oil and Natural Gas Liquids	8,224,000 B/D
	×12.2%
Adjusted Import Level 1967	1,003,328 B/D
Hypothetical Reduction in the Level for 1967	61,000 B/D

Statement on Behalf of City of Los Angeles, Department of Water and Power, on Senate Bill S. 2332, Relating to Imports of Petroleum, Submitted by Edgar L. Kanouse, General Manager and Chief Engineer

The Los Angeles Department of Water and Power is the exclusive supplier of electricity to nearly 3-million people of the City of Los Angeles. It has four oil- and gas-fired, steam-electric generating plants with a total of 2,917 megawatts located within the Los Angeles Metropolitan Area. These four plants represent about 83% of the Department's total capacity. Although no additional fossil-fuel plants are being planned within the Los Angeles Basin, these plants must continue to supply electricity for many years.

For the continued operation of these plants, natural gas fuel or residual fuel oil must be burned. Natural gas is used exclusively when it is available. The unavailability of gas is expected to cause the burning of 3- to 5-million barrels of fuel oil during each winter period over the next five years, depending upon weather conditions.

Section 24242 of the Health and Safety Code of the State of California prescribes restrictions upon the opacity of power plant stack gases, to which we cannot conform when burning domestic fuel oil. The Rules and Regulations of the Air Pollution Control District of Los Angeles County prevent the burning of any liquid fuel having a sulfur content in excess of 0.5 percent by weight. Available domestic residual fuel oil has a sulfur content of approximately 2 percent by weight. This, combined with the relatively high ash content of the domestic oil, makes it impossible for the Department to comply with the State Law when it is necessary to burn oil because gas is unavailable. On the basis of this violation and reinforced by continuous citizens' complaints, the Air Pollution Control District has refused operating permits for these generating units, and the Department is, therefore, permitted to operate these plants only under variances granted by the Hearing Board of the Air Pollution Control District of the Los Angeles County. It is becoming increasingly difficult each year to obtain these variances because of the above-mentioned violation and citizen complaints when we burn domestic residual fuel oil.

The Department has participated with the Southern California Edison Company in an effort to obtain a firm supply of natural gas. This proposal, the Gulf Pacific Case, was denied by the Federal Power Commission on the grounds that it would be an inferior use of a natural resource.

As an active participant in efforts to minimize air pollution in the Los Angeles Basin, the Department has continued the search for a desirable alternate fuel to the domestic fuel oil now used.

Recent tests of the fuel oil now being produced from imported low-sulfur crude oil indicate that it will enable us to conform to State Law and Air Pollution Control District regulations and would make a substantial contribution to the reduction of emissions of sulfur dioxide into the atmosphere in the Los Angeles metropolitan area. There is also evidence that the use of this low-sulfur low-ash residual would materially reduce stack plumes and citizen complaints.

The Department has made all possible efforts to obtain a low-sulfur fuel oil from domestic sources. These efforts have proved futile. Indications are that domestic sources—even when developed—would be inadequate to supply the requirements of the Department and other utilities operating in the Los Angeles Basin.

The only remaining source of low-sulfur oil is import oil and this is contingent upon the import quotas for crude oil being revised. This was done on October 4, 1967, under the proclamation of the Secretary of the Interior, which allowed an increase in the importation of low-sulfur, low-ash crude oil for refinement and sale as fuel oil. This fuel oil supply will be directly affected by the proposed legislation.

Under the revised quotas, it is now possible that at least a portion of the Department's requirements for the 1967–68 winter may be available in low-sulfur oil. It appears that a substantial part of the requirements for the following years may also be available in low-sulfur oil.

Finally, tests have shown that imported fuel oil will not be compatible with domestic fuel oil when mixed together. This makes it necessary to assure a constant, adequate supply of one type of oil to avoid operational difficulties.

We, therefore, urge that the increased oil import allocations be allowed to continue to the extent necessary to provide the fuel oil component of the total fuel supply for steam-electric generating plants in the Los Angeles Metropolitan Area.

STATEMENT OF DERMOT P. SHEA, EXECUTIVE SECRETARY OF THE CONSUMERS' COUNCIL OF THE COMMONWEALTH OF MASSACHUSETTS, IN OPPOSITION TO S. 2332

Mr. Chairman, I wish to thank Senator Edward Kennedy for his courtesy in notifying the Council about this hearing being held on Senate 2332 and arranging for the opportunity to be heard on this matter. For the information of the Committee the Consumers' Council is a statutory body of state government charged with the duty of protecting the consumer interest of the citizens of the Commonwealth of Massachusetts. It is also required to advise the General Court and the Governor of the Commonwealth on grave matters of consumer concern.

The Council had been considering the issue of the spiraling price rise and potential shortage of #2 Fuel (heating) Oil when it was notified by Senator Edward Kennedy of this hearing on Senate 2332. To state our position quite simply, the Consumers' Council is utterly opposed to this bill. On October 18 the Council filed a formal petition with the Secretary of Interior and the Oil Import Administration for relief of the intolerable supply and price situation of #2 Fuel (heating) Oil that has developed as the result of the policies of both the federal government and domestic oil refiners. This is the very same reason why we are opposed to this bill as it would discriminate against the consumers of the Commonwealth of Massachusetts in particular, as well as the entire New England area. The following excerpt from the Council's petition also outlines why it is opposed to this bill.

"The Council has received a statistical report, made at its request, from the State Division on Necessaries of Life, Department of Labor and Industries on this matter. This report states that the #2 Fuel (heating) Oil prices have risen 15.3% from the period of September 1962 through September 1967. At the same time the consumption of #2 Fuel (heating) Oil has increased 20.9% during the period of May 31, 1966 to May 31, 1967. From the period of June 1, 1966 to May 1, 1967 the number of gallons of #2 Fuel (heating) Oil consumed in Massachusetts came to 2,153,526,000. This is an increase of 250,000,000 gallons over the previous year. The projection for this coming year indicates another substantial increase in the consumption of #2 Fuel (heating) Oil. In fact, an estimated 75% of the households of the citizens of the Commonwealth use heating oil. These figures are from official state sources.

Paradoxically the Council finds that while the demand for #2 Fuel (heating) Oil has been steadily increasing, the domestic oil refiners are deliberately constricting the domestic supply, preferring to use their facilities for more lucrative finished products such as gasoline and jet fuel. This, in turn, forces a domestic wholesale price increase and creates a deliberate shortage of #2 *domestic* Fuel (heating) Oil. This comes at a time when the domestic oil industry is in excellent financial condition. The indications are that the oil industry is interested in forcing up the #2 fuel price close to the level of the price received for gasoline and jet fuel. Incidentally, this same oil industry is also the sole supplier of the natural gas consumed in this state.

From the information that the Council has received, #2 *domestic* Fuel (heating) Oil is delivered to the port of Boston at an average wholesale price of at least 2 cents per gallon more than the same #2 Fuel (heating) Oil if it were imported from the Caribbean area. Thus the policies of the federal government and the domestic oil refiners are levying an overcharge, or in effect, a tax of over $42,000,000 a year on #2 Fuel (heating) Oil to the grave detriment of the consumers of the Commonwealth of Massachusetts. It is remarkable, to say the least, that the oil lobby has been able to so distort the oil protectionist policy of the federal government as to create in effect a tax levy on the citizens of Massachusetts for the benefit of a private industry.

Furthermore, the federal government has also given a privilege tax statcs to the domestic oil producers (who in most cases are also the oil refiners of the same product) in permitting the 27% tax depletion allowance under the Internal Revenue Code. This is in effect another tax because the average citizen is not accorded this privilege. Certainly he would welcome this same depletion allowance to help pay the overcharge levied on this necessity of life by the domestic oil refiners as the result of the Federal Oil Import Program.

The Council notes for the record that neither the local wholesalers or oil dealers in Massachusetts are responsible for this situation. These marketing people must depend upon the whims and policies of the domestic oil refiners and the federal government as to the price and availability of supply of #2 Fuel (heating) Oil.

Certainly in view of the surging cost of living the federal government can and must act to reduce the price of a critical commodity which is also classified as a necessity of life in the Commonwealth. The most recent order of the Oil Import Board amounts to an additional allowance of a tanker and a half for all New England for a year. This is a totally unacceptable solution to a critical price and supply problem.

The Consumers' Council feels that it is unconscionable to permit this situation to continue. It goes without saying that it is the duty of government, both state and federal, to respond to the public interest which means quite simply the welfare of the people. Accordingly, the Consumers' Council requests that the Secretary of Interior and the Oil Import Administration review at once the entire order limiting the importation of the #2 Fuel (heating) Oil with the view of decontrolling the #2 Fuel (heating) Oil as was done in the case of residual fuel oil. Such action will break the price increase spiral and assure a plentiful supply of this product. Such action would restore normal competitive marketing conditions without harming our domestic oil industry which has become indifferent to the requirements of the consumers of #2 Fuel (heating) Oil." [End of quotation.]

Mr. Chairman, this bill would bar the very redress that the citizens of Massachusetts are now seeking from the Secretary of Interior and the Oil Import Administration. We hope that this committee gives S. 2332 an unfavorable report.

STATEMENT OF RICHARD C. WHITING ON BEHALF OF THE NEW ENGLAND FUEL INSTITUTE

I am Richard C. Whiting, officially appointed representative by the Board of Directors of the New England Fuel Institute, an organization of over 1,000 retail fuel oil distributors throughout the six New England States. This organization wishes to be recorded in opposition to S2332 for the following reasons:

1. It would substitute inflexible legislation for the present flexible control policy exercised by the United States Department of Interior.

2. Bearing in mind the needs of National Defense and the balance between Supply and Demand, the New England Fuel Institute wishes to state that the United States Department of Interior, sensitive to changes which may result from varying conditions, such as limited war, weather, disruption to transportation, and international political situations, has the capability to cope with rapidly changing conditions that affect the petroleum-using consumer.

3. Under present regulations, the United States Department of Interior has the authority to adjust and deal with imbalances in the supply of finished petroleum products.

4. Being vitally concerned with the supply of finished petroleum products for the consumer in the New England area, which, with less than 5% of the population, consumes over 20% of the nation's #2 fuel oil, the New England Fuel Institute feels there is a definite need for the continuation of the present flexible import control policy.

[Telegram]

NEW YORK, N.Y.

Hon. RUSSELL B. LONG,
U.S. Senate,
Washington, D.C.:

According to today's Wall Street Journal there will be an abundance of oil even a threat of a new glut, this in face of production from Texas and Louisiana having been out nearly 500,000 barrels a day from recent peak. Arab production is back pre-crises levels, and in some cases above. Venezuela usually supplied England 10 percent of its needs is now supplying 25 percent. Therefore, Venezuela, who confiscated properties of American investments from 28 States in the United States should not be permitted to sell any oil to United States until it makes redress to these investors. Would you please advise the members of your finance committee regarding this.

Kind regards,

BENJAMIN S. DOWD,
President, Chemical Natural Resources, Inc.

CLAREMONT, CALIF.

Senator RUSSELL LONG,
Democrat of Louisiana,
U.S. Senate, Washington, D.C.

DEAR SENATOR LONG: I find it very difficult to understand your opposition to the use of Indonesian Oil, with its low sulfur content, in Southern California.

I recognise that there are large oil interests without connections in Indonesia who would suffer financial loss through this move, however I trust that the interests of the several million smog-choked citizens of Southern California, while unable to exert pressure as an organised lobby, retain an influence on your decisions.

It is very difficult for me to place a charitable interpretation on your actions and I would greatly appreciate an explanation.

Respectfully,

REV. PAUL PEDERSEN.

ALTADENA, CALIF.

CHAIRMAN, SENATE FINANCE COMMITTEE,
Washington, D.C.

DEAR SENATOR: Today's newspaper carries a report that Senator Russell Long has brought legislation before your committee, with the aim of halting the importation of low-sulphur oil into the United States. This oil is needed in Los Angeles, to help in our difficult (and desperate!) fight against smog.

I hope that you and and your colleagues will reject the Senator's proposals. This is a matter of public health—of our children's *lungs*—not of protection for our oil industry.

Sincerely yours,

NOEL COINGOLD.

SENATE FINANCE COMMITTEE CHAIRMAN,
Senate Office Building,
Washington, D.C.

DEAR SIR: Please defeat the bill introduced by Senator Russell B. Long. Leave authority in hands of Secretary of the Interior. We need Indonesian oil or other low sulphur oil to help defeat our tragic air pollution in southern California.

Sincerely yours,

EVELYN K. MCKEE.

SOUTH PASADENA, CALIF.

Subject: Senator Long's oil import bill.

SENATE FINANCE COMMITTEE,
Senate Office Building, Washington, D.C.

GENTLEMEN: I am one of millions of residents of Los Angeles who need your help.

Please allow the Southern California Edison Company to use the low sulphur Indonesian oil. We desperately need to control every possible source of smog.

A worried mother,

MRS. JACK GRUSCHUS.

[Telegram]

PASADENA, CALIF.

SENATE FINANCE COMMITTEE,
Washington, D.C.:

Defeat Senator Russell B. Long bill. Rule in favor of importation of Indonesian oil in order to relieve air pollution condition.

MR. and MRS. W. SCHWYZER.

HUNTINGTON PARK, CALIF.

Hon. RUSSELL LONG,
U.S. Senate, Washington, D.C.

MY DEAR MR. LONG: I am enclosing an article from our local newspaper the Los Angeles Times concerning a bill that you have introduced dealing with imports, and its effect on our local smog problem.

Mr. Long, maybe you don't have smog in Louisiana, this I don't know, but in Los Angeles the smog is to terrible that on a bad day one's nose and eyes run all day and one's chest feels tight. Maybe you have not had to watch your little children's eyes red and streaming from the smog and you are helpless to do anything about it except sit and watch important men play politics with our lives. But it seems to me that if government departments don't begin to concern themselves with such problems as smog then eventually there will be no healthy Americans left to care whether your bills go through or not.

I beg and implore you to consider very seriously that you are affecting the lives of some 6 to 7 million Americans when you refuse to consider the difference between using imported oil for fuel and local oil with the high sulphur content. For the sake of our children, please remember money is not everything.

Yours very truly,

MRS. DOROTHY V. RALPHS.

P.S.—To us, every little bit helps.

[From the Los Angeles Times, Oct. 20, 1967]

PLANS FOR BURNING LOW-SULFUR OIL IN LOS ANGELES SEEN PERILED

(By Ken Reich)

Plans to burn foreign, low-sulfur oil in a dozen steam electric-generating plants in the Los Angeles area are jeopardized by an oil imports regulatory bill now before Congress, a Southern California Edison Co. spokesman charged Thursday.

The company announced last week that within 45 days it hoped to begin burning Indonesian oil in a move to reduce sulfurous smog in the South Bay and Los Angeles-Long Beach harbor areas.

But now it fears that a bill introduced by Sen. Russell Long (D-La.) will have the effect of nullifying an Oct. 3 ruling by Interior Secretary Stewart L. Udall which authorized the imports.

In Washington, sources acquainted with the bill's contents denied the Edison interpretation and said they see nothing in the Long bill that would curtail the low-sulfur oil imports.

NOTE OF CAUTION IN DENIALS

A cautionary note in the general denials was, however, sounded by Dell Perry of the Interior Department's Oil Import Administration.

Perry said that because some terms are still undefined in the Long bill it would be difficult to predict its exact effect before it was implemented.

(The Indonesian oil to be imported has a sulfur content by weight of only .3% as compared with 1.75% for most American oils.

(Its use could sharply reduce the amount of sulfur dioxide escaping into the atmosphere from the electric-generating plants during winter months, when a shortage of natural gas forces Edison and the Los Angeles Department of Water and Power to burn oil.)

The Long bill, which would set import rules across the country, is before the Senate Finance Committee for hearings.

Edison insists that Paragraph F of the bill would force it to use domestic oil whenever it was available, in preference to foreign oil.

This would mean that Edison, along with Los Angeles' DWP, would have to continue to get variances from rules of the Los Angeles Air Pollution Control District which ban burning oil with more than a .5% sulfur content. The APCD Hearing Board has granted such variances on an annual basis since 1959.

An Edison spokesman said that while Paragraph F in the Long bill is worded in such a manner as to make it virtually incomprehensible, the senator himself had indicated in a speech the day he introduced the bill that it would have the effect of reducing foreign oil imports to a minimum in the Western states.

In that speech before the Senate on Aug. 23, Long also said oil import quotas should not be changed to solve such problems as air pollution.

In his Oct. 3 action, Udall authorized the use of foreign oil when it was necessary for compliance with rules of air pollution control districts. Thus, he clashed with Long's views as voiced Aug. 23.

The Johnson Administration has expressed opposition to the quota concepts embodied in the Long bill.

STANTON, CALIF.

Senator RUSSELL LONG,
Senate Office Building,
Washington, D.C.

DEAR SIR: I wish to express my opposition to S.B. 2332 because of the high smog content in California and worse still in Los Angeles smog basin. The continued use of low sulphur foreign oil is one means of easing our terrible smoggy air here in California.

Our power plants now exude too much exudate that adversely effects human lives, agriculture, and general well being. I remain.

Truly yours,

JOHN M. CHAPLICK.

PASADENA, CALIF.

Senator RUSSELL LONG,
Washington, D.C.

According to a Los Angeles Times editorial, in the October 24 issue, you have stated an oil import program "has one and only one purpose and that is to maintain a healthy, vigorous, domestic petroleum industry." Your statement is either based on callous ignorance of the smog problem in and around Los Angeles or you are showing an arrogance unbecoming to an elected representative of the people.

Which is more important to you . . . lives or the economic fortunes of special interests?

You, in effect, are putting yourself in the unenviable position of being responsible for legislation that would help continue the misery being suffered by millions, yes, Senator, millions of people who live in and around Los Angeles. You see Senator, we smell smog, taste smog, absorb smog and inhale smog practically around the clock these days. We also become so nauseated that we have to get out of the area at times to get back our strength.

Senator, it also eats our tires, the tires valve stems, the foam rubber in our furniture, and it dissolves women's stockings in certain areas. Oh, yes, it eats the mortar in brick buildings, makes our wild birds cough and kills our shrubbery, trees and flowers. It ruins the paint on our cars and causes our school children to stay inside the school instead of going out during play periods. Many days, because of smog, we don't see the sun. We are even beginning to have smog at night. We can't see and we can't breathe without it hurting.

Yes, Senator, millions of Southern Californians are suffering the enervating effects of continual exposure to smog. I submit that if the legislation you are sponsoring is passed, that it will contribute to the illness and premature deaths of hundreds of thousands of Southern Californians. Do you want to assume part of the responsibility?

Before you make your decision, why not come out and see for yourself? As a sufferer from smog, I deplore your present position.

Very truly yours,

NORMAN CRANDALL.

POMONA, CALIF.

Senator RUSSELL LONG,
Senate Office Building,
Washington, D.C.

DEAR SIR: I am a teacher here in California. I am unable to teach today because my throat and eyes are so swollen from the smog. If you have been reading the papers, you know that the smog in California is worse than ever.

How can you, as a good citizen, introduce legislation that would have the effect of blocking importation of low-sulfur oil from Indonesia for use in utility steam generating plants when you know it is the only fuel that doesn't produce a smog problem and is unavailable from domestic producers? Doesn't the health of California citizens mean anything to you? I thought elected officials were concerned with the welfare of all the citizens of the United States, not just the special interests. Why should the profits of a few jeopardize the health of millions? That is criminal. You are getting some poor publicity here in California. I suggest you do a little soul-searching.

Yours truly,

BETTY ROUNTREE.

UNION OIL COMPANY OF CALIFORNIA,
Los Angeles, Calif., November 20, 1967.

Hon. RUSSELL B. LONG,
U.S. Senate, Washington, D.C.

DEAR SENATOR LONG: During the recent Senate Finance Committee hearings on import controls, Mr. Louis J. Fuller, Air Pollution Control Officer, Los Angeles County, submitted a statement regarding Senate Bill 2332, which we believe needs clarification.

Mr. Fuller stated that a recent modification in the oil import regulations now makes it possible to import low sulfur Indonesian crude into District V. He added that, with two exceptions, most of the producers and marketers in the district vigorously opposed the importation of this crude, demonstrating a callous indifference to the public welfare that was almost incredible. Actually, what is incredible are the errors contained in these statements.

As you may know, the Presidential Proclamation concerning air pollution abatement provides for the allocation of an additional oil import quota to refiners who have produced low sulfur residual fuel oil to be used as fuel, without specifying the use of domestic or foreign crude oil. The proposed implementing regulations issued by the Department of the Interior, however, restricted this additional quota to refiners who used imported crude oil to manufacture low sulfur fuel oil. This restriction arbitrarily discriminated against all domestically produced crudes. It virtually gave a subsidy to the two producers of the only economically available foreign low sulfur crude oil, which is produced in Indonesia. It was this inequitable aspect of the proposed regulation that the West Coast producers and marketers protested. Subsequently, after some productive meetings with Interior Department officials, this restriction was removed.

Mr. Fuller is also mistaken when he claims that the recent regulation change made possible the importation of low sulfur crude oil from Indonesia into District V. Although the overall level of petroleum imports has been limited to the difference between West Coast petroleum demand and the amount of crude oil produced on the West Coast, there has never been any discrimination against Indonesian low sulfur crude oil. As a matter of fact, during the last four years over 80 million barrels of Indonesian low sulfur crude oil have been imported and refined in District V. Utility consumers, however, apparently have heretofore been unwilling to purchase such low sulfur residual fuel oil because they have been able to obtain variances from the Air Pollution Control Board to permit them to burn cheaper high sulfur fuel oil. As a result, this low sulfur fuel oil has been converted to lighter products or commingled with high sulfur fuel oil and sold at lower prices.

The last point we wish to clarify concerns Mr. Fuller's interpretation of S. 2332. This bill would not prevent the importation of low sulfur crude oil into District V as he indicates. Indeed, the bill merely confirms existing regulations under which this crude oil has been imported for some years.

We realize that our comments may not arrive in time to be included in the public records of the import hearing. We feel, however, that, as Chairman of the Senate Finance Committee, you should be made aware of any incorrect statements in the testimony under consideration.

Very truly yours,

M. S. THOMSON,
Vice President, Refining.

FOOTWEAR IMPORTS*

90TH CONGRESS
1ST SESSION

S. 2540

IN THE SENATE OF THE UNITED STATES

OCTOBER 16, 1967

Mr. MUSKIE (for himself, Mr. BROOKE, Mr. COTTON, Mr. DIRKSEN, Mr. ERVIN, Mr. INOUYE, Mr. MCINTYRE, Mrs. SMITH, and Mr. THURMOND) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To provide for orderly trade in footwear.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the Orderly Footwear Marketing Act of 1967.

SEC. 2. PURPOSES.—The purposes of this Act are to promote equitable competition between United States and foreign producers of footwear, to provide for orderly trade in footwear and to afford foreign nations supplying footwear a fair share of the growth or change in the United States market.

SEC. 3. DEFINITIONS. As used in this Act—

II

*Witnesses testifying on this subject, pp. 411–442.
Communications received by the committee on this subject, pp. 442–455.

(a) "footwear" shall include all those articles specified in schedule 7, part 1, subpart A, of the Tariff Schedules of the United States Annotated (1965), as amended.

(b) "category" shall include all those articles of footwear designated under any single item number of the Tariff Schedules of the United States Annotated (1965), as amended.

(c) "United States consumption" of footwear for a given calendar year shall equal the sum of the United States shipments and imports of footwear during such year, less the quantity of United States exports of footwear for such year.

SEC. 4. The President is authorized and directed to undertake negotiations with other governments for the purpose of consummating agreements to provide orderly trade in footwear, including the quantitative limitation of imports of all such articles into the United States. Such agreements shall limit the annual importation of footwear in each category to the average share of the United States consumption in each category supplied by imported footwear during a representative historical period of not less than three calendar years prior to the year 1967, as determined by the President. Such representative historical period shall be the same for all countries and all categories of footwear. The

President shall have full authority to determine the share of total imports in any category of footwear which may be supplied by any country to the United States on the basis of historical patterns of such imports, the interests of developing countries, and such other factors affecting trade in such categories as he deems appropriate.

SEC. 5. After one hundred and eighty days after the date of the enactment of this Act, the total quantity of imports in each category of footwear not subject to an agreement or agreements negotiated pursuant to section 4 or to proclamations issued under section 5 shall be limited by category as follows:

(a) During the balance of the year in which this section becomes effective, the total quantity of any such footwear which may be entered, or withdrawn from warehouse, for consumption shall be equal to that proportionate share of the average annual imports of footwear for the years 1962–1966 which the number of days remaining in the calendar year bears to three hundred and sixty-five.

(b) Beginning with the calendar year following the year in which this Act becomes effective, the total quantity of any such footwear which may be entered, or withdrawn from warehouse, in that year and each succeeding calendar year, shall be equal to the average annual quantity of such articles entered, or withdrawn from warehouse, for consumption during the given calendar years 1962–1966, *Provided, however*, That the total quantity of such footwear in any category shall be increased or decreased in each succeeding calendar year by a percentage corresponding to the percentage increase or decrease (if more than 5 per centum) in the United States consumption in such category in such calendar year compared with the year previous thereto, except that the amount of such increase in any category which may be entered or withdrawn from warehouse for consumption during any calendar year shall not exceed 10 per centum of the amount of such increase in United States consumption of such category.

(c) The President shall have full authority to determine the share of imports in any category which may be supplied by any country to the United States on the basis of historical patterns of such imports, the interests of developing countries, and such other factors affecting trade as he deems appropriate.

SEC. 6. The President may issue such regulations as may be necessary to carry out the purposes of this Act.

Senator TALMADGE. We are honored indeed to have as our next witness, the distinguished Senator from Maine, the Honorable Edmund S. Muskie. With Senator Muskie is Mr. Goldstein, president of the Plymouth Shoe Co., representing the National Footwear Manufacturers.

We are delighted to have you with us, Senator. You may proceed as you see fit, sir.

STATEMENT OF HON. EDMUND S. MUSKIE, A U.S. SENATOR FROM THE STATE OF MAINE

Senator MUSKIE. Thank you very much, Mr. Chairman. I know you have had a long and busy day, and having been on that side of the table myself, I will try to be brief.

Senator TALMADGE. Take as much time as you want.

Senator MUSKIE. I will say at the outset that I would like to put at least 75 percent of my statement in the record without reading it.

Senator TALMADGE. Without objection, you may insert whatever you wish.

Senator BENNETT. We are 75 percent convinced now.

Senator MUSKIE. If I thought we could carry that on to a logical conclusion, I would leave the table at this point.

(Senator Muskie's prepared statement follows:)

PREPARED STATEMENT OF HON. EDMUND S. MUSKIE, A U.S. SENATOR FROM THE STATE OF MAINE

Mr. Chairman and members of the Committee, I appreciate very much this opportunity to appear before you to testify in support of my bills S. 1446, The Orderly Marketing Act, and S. 2540, The Orderly Footwear Marketing Act. I should also like to note my support and co-sponsorship of S. 1796, a bill introduced by Senator Hollings regarding the textile situation.

Mr. Chairman, the last decade has witnessed a swift and remarkable change in the conditions of world trade. In a number of industries, particularly the textile, shoe, agricultural, and wood products industries, the complex problems of high labor input, narrow profit margins, and limited capital resources have helped low-wage foreign competition to gain major inroads on the American domestic market. This situation has threatened the existence of many American manufacturers, particularly the small ones, and their workers.

Although we all recognise the need for expanded world trade, we do not think it makes sense for our workers or our industrialists, or in the long run for industrialists and workers in other countries, to depend on erratic unstable trade developments as a vehicle for economic growth. In our domestic markets we use a number of devices, including minimum wage and hour laws, for example, to insure fair competition. We cannot apply similar requirements on foreign countries.

The bills which you are now studying are all designed to give those American industries which have been hardest hit by a massive flood of low-cost foreign imports time to re-adjust to these changed patterns of world trade. I am not particularly happy about the prospect of imposing quotas on foreign imports, and I would much prefer the flexible and adaptable orderly marketing concept, embodied in the Orderly Marketing Act. This concept would avoid the rigidity of import quotas at the same time that it would help to bring balance to our trade policy. However, the Administration has shown a marked reluctance to use the Orderly Marketing Amendment to the Trade Expansion Act. Meanwhile, the flood of imports hitting the textile, shoe, and other industries in this country has increased every year. It is for this reason that I have introduced, somewhat reluctantly, the bill to impose import quotas for shoes. As an example of the effects which this flood of imports has caused on American industry, I should like to call your attention to the alarming increase in footwear over the last decade.

In 1955 footwear imports were approximately 8 million pairs, or 1.2% of domestic production. In 1966, there were 131 million pairs, or an increase of 1556% over 1955. For the first six months of 1967, there are 94 million pairs, or 24% of domestic production. In certain sections of the industry, such as women's casual footwear, imports for the first six months of 1967 equal 119% of output; in rubber-canvas oxfords, 28%; in men's cemented, 30%; and in women's dress shoes, 28%.

This shocking increase in imports is most significant to me because footwear manufacturers are the largest employers of labor in the State of Maine. It is important to my colleagues in Massachusetts, New Hampshire, Pennsylvania, New York, Missouri, Tennessee, Illinois and Ohio, and where substantial numbers of workers in the manufacture of footwear are employed. It is particularly serious to the American economy because it strikes at small business, the foundation of our economy, and the type of economic enterprise that we are trying to preserve.

The majority of footwear factories are in small towns where they are the major source of employment and income. There are over 1,200 footwear-producing plants located in over 600 communities in 42 states. While the industry employs over 280,000 workers and has a payroll of almost a billion dollars a year, these plants are typically small business operations, many of them struggling for existence. They employ somewhere in the neighborhood of 200 workers per plant, and the total industry employs almost 285,000 workers. Another 75,000 people are employed in the tanning and allied industries which provide leather, machines, materials, and supplies for footwear. This is not an unimportant industry. The total sales of footwear at retail approximate $6 billion.

How could the import situation in footwear have developed so rapidly that it has absorbed all the growth that the domestic footwear industry should have enjoyed in the past decade? How could this happen in the greatest industrial nation of the world, the supposed leader in productivity and efficiency? How could imports of foreign footwear grow from literally nothing to a point where they are equal to almost a quarter of our domestic production in a little over a decade? The answer is simple. Imports increased at this rate, and will continue to increase rapidly, because they are produced at wage and hour costs that are illegal in the United States. They are being produced in plants rebuilt with American dollars in Japan and Western Europe following World War II. Footwear manufacture employs relatively simple machines to cut, sew and cement footwear materials into a shoe. Techniques are practically the same from one country to another. Even with these new plants, foreign footwear manufacturers have but one advantage, and that is cheap labor. Their wage rates are from a third to a fifth of the wages that footwear manufacturers pay in the United States. This single fact alone makes it possible for these manufacturers to compete and take an ever-increasing share of the American market. I am placing in the *Record* a table which will show the sources of footwear imported into the United States (see "A" attached).

And let me emphasize that imports are not due to inefficiency in the American footwear industry. Various studies have shown that American footwear manufacturers' productivity exceeds that abroad by anywhere from 25% to 35% in pairs per worker per day. American wage rates in footwear are the highest in the world. American production workers in nonrubber footwear manufacturing plants at the present time average an estimated $2.41 an hour including fringe benefits. In the rubber footwear industry, U.S. workers receive $2.62 an hour not including fringe benefits and allowances. Footwear workers in Japan make an estimated 63 cents an hour, and in Italy, 78 cents an hour including fringe benefits and bonuses. The labor cost advantage is so great that domestic footwear manufacturers, no matter how efficient, cannot compete.

Footwear imports are not essential to provide medium- and low-priced footwear to the American economy. This task has been performed by the American footwear manufacturers. There is tremendous competition existing among the 850 footwear manufacturers. The industry is not, and never has been, a high-profit one. The average footwear manufacturer earns between 2 cents and 3 cents on each dollar of sales last year, compared to the 5.6 cents averaged by all other American manufacturing industries. The average retail price of a pair of domestically produced shoes is only about $7.50, and 57% of all men's shoes and 80% of all women's shoes sell at or below $11.00 a pair; 65% of all children's shoes sell at or below $6.00 a pair.

Why, then, do imports come in? A small part come because they offer something new and different to consumers. But the bulk come because they are produced by low-priced labor, because they are somewhat lower in price than American shoes, and provide retailers with a higher margin of profit.

Footwear imports have meant the export of jobs which should have been performed by American workers. If all imported shoes had been produced in the United States, in 1966 there would have been 30,000 more job opportunities. As imports increase, a greater number of job opportunities will be lost. Is it more important to make jobs for Japanese or Italian workmen than for American workmen? How, with these conditions, will we be able to absorb the workers coming on our labor market in years to come?

Imports have absorbed practically all of the growth of the domestic footwear industry over the last decade. In 1966, United States footwear output, excluding slippers, was only 3.5% higher than ten years ago. Contrast this with the growth of the footwear industry in the Common Market countries at 48%, or the EFT countries of 21%, or even the United Kingdom of 16%, from 1957 to 1964.

The unfair competition existing between domestic and foreign footwear is also reflected in the fact that footwear imports in 1966 were 44 times as high as footwear exports. Today, we export about 3 million pairs a year of specialty types of footwear. This reflects both the fact that we cannot compete pricewise and the fact that most shoe-producing nations of the world have high tariffs to protect their domestic footwear industries or discourage footwear imports by exchange restrictions, some form of taxation, or even outright prohibition. Prior to the Kennedy Round reductions, footwear duties in the United States averaged only about 13%, compared with an average of 38% for Italy and 25% to 50% for Japan. These duties often are meaningless because imports into these countries are restricted by one or more of the above restraints. In addition, some of these countries encourage footwear exports to the United States through export subsidies, credit on domestic taxes paid on exported manufactures, and concessions on freight.

And let me assure you that when the results of the Kennedy Round for all trading parties are known, it will be found that tariff rates on footwear in the countries shipping shoes here are still higher and that hidden tariff barriers will continue to exist, making it impossible to sell American shoes abroad even if our prices were competitive.

The footwear industry has been seeking recognition and relief on this problem since 1959, when it presented an extensive exhibit of imported footwear to senators and congressmen from important footwear-producing states and to representatives of various government agencies. In fairness to the officials involved, it should be pointed out that when the footwear industry showed the need for better marking of imported footwear which were mismarked in ordered to avoid proper tariff duties, some action was taken to correct this problem. There is more to be done in this direction, and I urge customs officials to give this matter their attention.

In 1961 the footwear industry again invited senators and congressmen to visit an exhibit of imported footwear and to appraise its impact on the domestic industry. Well over a hundred senators and congressmen took advantage of this opportunity. Following this meeting, I introduced Senate Bill S. 1785, the Orderly Marketing Act of 1961. I have again introduced this bill as S. 1446. This was not, and is not, a protectionist bill. It was not a bill to roll back imports or raise tariffs or provide any other unrealistic treatment of imports under existing world conditions today. It recognizes the Administration's desire to increase and promote international trade. It is based on a live-and-let-live philosophy. It follows general practices which have prevailed in certain other countries and, in fact, is much fairer than certain of these practices. It calls for the establishment of voluntary quotas which would guarantee to all nations the share of the U.S. market which they had earned over a recent period. Furthermore, they would continue to share in the normal growth of the U.S. market.

There was no action on this bill in 1961, and there has been no action taken on S. 1446, this year's bill.

When the Trade Expansion Bill was presented to the Senate in 1962, I pointed out the serious impact of imports on the footwear industry as a result of competion from low-wage countries and reductions in tariffs on shoes of at least 75% over the previous twenty-seven years. In introducing the following orderly marketing amendment to the TEA, I said:

"I offer this amendment as a constructive effort to provide improved protection for those industries faced with disruptive increases in imports from low-wage industries in foreign countries, without frustrating the basic intent of the trade expansion program. Briefly, my amendment would give the President the authority to negotiate special agreements with low-wage countries to allow such countries an orderly share of our domestic market, without destroying our own industry because of the unfair advantage enjoyed by those foreign industries paying substandard wages. This will carry out the intent of S. 1735, the Orderly Marketing Act, which I introduced last year.

I ask unanimous consent that my amendment may be printed at this point in the Record.

There being no objection, the amendment was ordered to be printed in the Record, as follows:

On page 2, between lines 13 and 14, insert the following:

"(5) to establish orderly marketing negotiating procedures which will offer nations in which wages oi working standards are significantly lower than in the United States a fair share in the growth or change in the domestic consumption in such manner as will also prevent unfair competitive advantage over United States manufacturers or produces."

On page 3, between lines 20 and 21, insert the following:

"SEC. 203. Special authority for imports from nations with low wages or working standards.

"In the case of trade with any nation or nations in which wages, including fringe benefits, and working standards with respect to manufacturing industries are substantially lower than such wages, including fringe benefits, and working standards in the United States, the Tariff Commission shall, upon request of the President, or upon its own motion, or upon application of an interested party, conduct a public hearing and investigation to determine whether or not as to any article or articles imported into the United States from such nation or nations there exists a differential between domestic and foreign costs of production which is due primarily to such lower wages, including fringe benefits, and working standards and which gives foreign manufacturers and producers of such article or articles an unfair competitive advantage over domestic manufacturers or producers of like or competitive articles such as to cause or threaten substantial injury to such domestic manufacturers or producers in the United States market. If the Tariff Commission shall, as a result of such investigation, find that injury is so caused or threatened, the President may, pursuant to section 201(a), negotiate with such nation or nations and proclaim such import restrictions as are appropriate to provide such foreign competition and domestic manufacturers or producers with an opportunity for a fair share in the growth or change in the domestic market for such article or articles. Agreements, negotiated under this section may be without regard to the provisions of section 251 or title III."

I was disappointed to see that, Administration pressure bolstered by the tremendous propaganda drive for the Trade Expansion Act on the part of exporting industries cut back on the amendment. As originally designed, the section to be incorporated in the basic operative title of the Act would have bypassed the pre-conditions for relief set forth in Title III of the TEA. This was particularly important because Title III required a finding by the Tariff Commission that increased imports resulted "in major part" from tariff concessions. We suspected then what we now know: that the Commission would defend the battlements successfully against both labor and industry drives for relief from increased imports. No firm or industry or labor organization has been able to secure adjustment assistance from the section of the TEA.

The orderly marketing amendment, as I submitted it, would have provided relief for labor and industry.

I must admit that at that time, in 1962, I thought the following statement in the report of the Senate Finance Committee of September 14, 1962, might mean that the amendment would be workable:

"A new section, 352, was added to the bill giving the President discretionary authority to enter into orderly marketing agreements with foreign countries limiting the export of certain articles to the United States where such agreements offer an appropriate device to prevent or remedy serious injury to domestic industry found to be injured under the escape-clause procedure.

"The addition of this new section makes it possible for the President to enter into agreement with foreign countries in order to prevent increased imports from injuring domestic industry. Marketing agreements may give domestic manufacturers an opportunity to adjust to changing competitive conditions and may contribute to healthy competition between domestic and foreign manufacturers. This is particularly true when industries concerned have relatively low capital investment, high labor input, and manufacturing techniques which are easily transferred, and labor skills which are easily acquired, and in which there is a tendency to overproduction for the world market. In such industries, rapid expansion is possible, and these industries are frequently characterized by substantial wage differentials as between countries.

"International argeements have been made under section 204 of the Agricultural Act of 1956, as amended, involving certain agricultural commodities and other materials. The amendment would broaden this authority within the context of the trade agreement legislation to include other products."

In view of this statement of the Committee, I expressed gratification on the floor of the Senate in September, 1962, that the modified amendment included in the bill could be useful. The same view was shared by members of the footwear industry. All of us hoped against hope that there would be a willingness on the part of the powers administrating the Trade Expansion Act, as well as the Tariff Commission, to take a liberal interpretation of this emasculated amendment. I shall not bore my colleagues in the Senate with the history of the failure of the trade adjustment assistance provisions of the TEA other than to remind them of the twenty-one cases brought before the Tariff Commission, twenty-one of which were turned down. Obviously, without an affirmative finding by the Tariff Commission that an industry had been injured there could be no alternative action by the President in negotiating orderly marketing arrangements.

It is clear now that section 352—the emasculated orderly marketing amendment—as well as the vast section on trade adjustment provisions in the Trade Expansion Act were a facade to induce support for passage of the act. There was no intention of sponsors of the act to have either of these sections operative.

In 1963, it became clear that the orderly marketing clause and the trade adjustment assistance provision would not be used to help the footwear industry. A meeting was held to discuss the industry's import problems, attended by 40 senators and representatives of 60 leading footwear manufacturers. At this meeting, the impact of imports on American footwear manufacturers was presented to the group. Exhibits of imported footwear were shown. I might add that my friends in the House, Conrgessmen James Burke and William Bates of Massachusetts, presented the same facts at a meeting attended by 100 congressmen and many of their shoe constituents.

On July 25, together with 82 of my colleagues in the Senate, the following letter was sent to President Kennedy:

"We are increasingly concerned over the effect which the rapid expansion of shoe imports continues to have on the domestic footwear industry. The rapid rate of foreign shoe entries has displaced U.S. job opportunities and profits and precludes any substantial effort to develop export markets.

"Industry figures indicated that leather shoe imports increased from nearly 8 million pairs in 1955 to more than 55 million pairs in 1962. While the magnitude of the problem has been demonstrated, the domestic shoe manufacturing industry needs more precise statistical data to better demonstrate its competitive position concerning both exports and imports. Because of the development of footwear construction breakouts under the Tariff Act in the 1930's and subsequently, domestic manufacturers find it extremely difficult to rationalize import statistics with domestic production in competitive lines. It is our understanding that representatives of the domestic industry have submitted a request for more refined data through the inter-agency committee on the shoe industry, and that certain funds may be required for such a study. We urge that this request be approved so that the Bureau of Customs and the Bureau of the Census can develop the essential data.

"We earnestly request, also, that you consider entering into negotiations with principal foreign supplying nations to establish quantitative limitations on shoe imports. In our view, Congress has delegated authority for such negotiations and the proclamation of such restrictions in at least two acts. Under Section 201 (a) of the Trade Expansion Act of 1962, you have been authorized to negotiate and enter into trade agreements and proclaim such additional import restrictions as will implement these agreements.

"A quantitative limitation on imported footwear would enhance the foreign trade capabilities of the United States by allowing the shoe industry to develop as a healthy, viable segment of the economy. Such a limitation would also serve as a lever for the reduction of foreign import restrictions on footwear and other commodities.

"Quantitative import limitations have been imposed under the preceding section of the Trade Agreements Act, which contains the same requirements.

"Section 204 of the Agriculture Act of 1956 provides additional authority for you to negotiate agreements limiting imports of "any agricultural commodity or product manufactured therefrom,' whenever you determine such action to be appropriate. This is the broadest sort of authority, described by Senator Ellender as 'applicable to all countries and all agricultural commodities and their products.' 102 Cong. Rec. 6080 (1956). The Department of Agriculture, moreover, considers it a general, all-encompassing term (see, for example, a letter dated April 4, 1962, from John Bagwell, General Counsel for the Department to Senator Ellender, appearing at 108 Cong. Rec. 7878 (Daily Ed., May 16, 1962), and we have no doubt that it can apply as well to leather and leather footwear as to lumber or textile products.

"We are today, submitting briefs on the application of both Acts to your staff. We emphasize the importance of taking early steps to initiate the statistical study as the first step toward a solution of the domestic shoe industry's international competitive problem. Such a study would clearly assist you with respect to the request we have made that you consider entering into negotiations to establish quantitative limitations on shoe imports."

A similar petition sponsored by Congressmen Burke and Bates of Massachusetts, and signed by 235 congressmen, was presented to the President.

On July 31, I, together with Senators Pastore, Edward Kennedy, Talmadge, McGee, and Church, called on the President to discuss shoes as well as wool and poultry. I commented on the letter sent the previous week to the President, and the President gave a favorable reaction to the group's request for a study of the industry's problems.

On October 17, 1963, Senators Edward Kennedy and McIntyre joined with me and, together with several congressional representatives from shoe districts, we visited President Kennedy to discuss footwear. We presented the following five points:

"1. It is essential to the welfare of the shoe industry that it be placed on the reserve list in the forthcoming GATT negotiations.

"2. The industry urges that negotiated quotas be arranged with Japan and Italy.

"3. The industry requests that the State Department arrange discussions between representatives of the U.S. shoe manufacturing industry and representatives of the governments of Italy and Japan to urge these nations that their own best interests call for restraints on exports of footwear to the United States.

"4. That the industry requests the President to establish a committee to assist shoe manufacturers in working out their import problems.

"5. That domestic and import statistics be revised and expanded to reflect more accurately import trends in footwear."

On point 1, the President indicated the GATT negotiations to be a year or more away and that much might develop in the meantime on the import problem. It was his view that attention should now be given to matters which might be of immediate assistance to the industry.

On point 2, the President outlined the difficulties surrounding negotiated quotas at that time.

On point 3, the President indicated that Secretary of State Rusk would be instructed to ask our ambassadors in these countries to arrange for discussions with Italy and Japan.

On point 4, the President indicated that the Inter-agency Committee on footwear, which had been established as a result of the industry's efforts on imports with President Kennedy, now composed of representatives of Commerce. Labor and State, would be strengthened. He also suggested the establishment of an advisory committee of shoe manufacturers to assist the committee in working out solutions to the import problem.

On point 5, the President assured the industry representatives that funds will be made available for an expanded statistical program to more accurately measure the impact of shoe imports on domestic production.

On Tuesday, December 10, 1963, Secretary of Commerce Hodges announced the appointment of a nine-member advisory committee of labor and management representatives to assist the inter-agency government group on the problem of footwear imports. The Secretary said: "Shoes, woolen textiles, and beef now are the three items in which import competition is arousing the strongest protests."

On April 23, 1964, a few of my colleagues and I were joined by congressional representatives and leaders of the footwear industry in a meeting with President Johnson to secure a re-affirmation of the program approved by President Kennedy. The President was very helpful. He indicated surprise at the cost differentials between domestic and imported footwear and suggested to Secretary Rusk, who attended the meeting, to give the matter some attention. Secretary Rusk said he would take it up with Undersecretary Ball. At this meeting, President Johnson indicated that (1) the industry's request that footwear be placed on the reserve list would be carefully reviewed, (2) that he would direct the State Department to arrange discussions on footwear problems with important exporting nations, (3) that he endorsed the need for expanded statistical information to assist the industry in obtaining data, and (4) on the request for an orderly marketing program for footwear, the President indicated that this would be possible only after the Tariff Commission had completed studies supporting the desirability of such quantitative limitations. This completely confirmed our view (if anything more were needed) that the Trade Expansion Act as useless as far as the orderly marketing and adjustment assistance provisions were concerned.

At a press conference later in April, 1964, President Johnson was asked the following question: "Mr. President, speaking of imports, several groups have been in to see you yesterday—the wool group, and Mr. Blough of U.S. Steel; also, I understand you had a meeting with the shoe group. In view of the upcoming Kennedy Round of negotiations, do not believe you will be able to give any of these groups help?" The President replied: "Yes, we are giving study and thought, and we hope some assistance, to these individual commodity problems. We are working on it."

Following the reaffirmation by the President of the basic points of the Kennedy program for the footwear industry, an intensive series of meetings and conferences with the Tariff Commission, the Department of Commerce, and the Census Bureau was begun and continued almost to the end of 1964 to produce the new statistical categories for the reporting of imported and domestic footwear.

On May 1, 1964, Senator Edward Kennedy and I, along with Congressmen Burke and Bates, and a number of industry representatives, presented the following statement to Undersecretary of State George Ball:

"The undersigned represent 235 Congressmen and 38 Senators who are concerned with the high level of footwear imports entering the United States and the impact of these imports on the domestic shoe manufacturers. Last year this group petitioned President Kennedy for assistance to this industry, and on its behalf we and other members of Congress renewed our requests at a meeting with President Kennedy in October, 1963, and again at a meeting with President Johnson last week, April 23, 1964.

"Among the principal requests emphasized at both meetings was that conferences between representatives of the domestic industry and industry representatives of principal foreign supplying nations, especially Italy and Japan, be established to discuss conditions of world trade in footwear. We now ask that the Department of State take such steps as are necessary to establish such meetings to take place at the end of May.

"We stress that the attendance and participation of a responsible officer of the Department of State are essential. These meetings are vital to the development of a full comprehension of the problems of the domestic shoe manufacturing industry caused by imports and, therefore, deserve the attention and advice that would be provided by the presence of such an official. In view of the seriousness of the threat facing this industry, we do not view a request for participation in deliberations regarding the nature of these problems as unreasonable. Moreover, because of the known close working relationship between industry and government in those nations, such participation would be appropriate. Finally, such attendance would insure that the U.S. government is fully apprised of the information and views exchanged at such meetings and, therefore, is continuously alert to developments regarding this issue with which we are concerned.

"We earnestly request that you will initiate appropriate procedures to implement this request."

The Undersecretary made the necessary arrangements. On May 19 and 20, I headed a delegation which met with representatives of the Italian footwear manufacturing industry in Milan, Italy. We urged the Italian footwear manufacturers to appeal to their own government to inaugurate discussions with the U.S. Government for an orderly marketing arrangement on footwear. The meeting arrived at the following decisions:

1. That the foreign trade committee of the National Footwear Manufacturers Association would prepare a complete story on the impact of Italian footwear imports on the U.S. footwear industry for presentation to the Italian group.

2. That Italian footwear manufacturers would report back to the Foreign Trade Committee their views on the suggestions.

3. That possibly another meeting might be arranged between Italian and U.S. representatives in September.

The domestic industry carried out its responsibility and presented the promised information to the Italian footwear industry.

No formal response or request from the Italian group for further meetings was ever received. Newspaper reports indicated that there was a marked reluctance on the part of the Italians to urge their government to discuss some orderly marketing arrangement with the U.S. Government. A number of reasons were given, including the atomized structure and wide dispersal of the footwear industry in Italy, as well as the necessity to keep the Italian footwear industry alive by exporting footwear.

During the same year, Thomas Shannon of the firm of Collier, Shannon and Rill, counsel for the National Footwear Manufacturers Association, spent several weeks in Japan on a number of assignments, one of which was to explore the possibility of orderly marketing arrangements with Japanese footwear manufacturers. He received no encouragement.

We advised the senators and congressmen signing the industry's petition to the President of these results.

Every effort was made by senators and congressmen from shoe states in 1964 to urge the negotiating authorities to put footwear on the reserve list in the forthcoming GATT negotiations. Yet, in spite of these efforts, reductions averaging at least 30% were made in important footwear categories, when actually, as we have seen, no reductions at all were necessary to enable foreign footwear manufacturers to capture an increasing share of the American market. I shall have more to say on this point in a moment.

Certainly there is no lack of awareness of our problem. Two presidents have given a sympathetic nod and some help to the industry, but there has been no effort to ease the pressure of imports. Vice President Humphrey, speaking to the Associated Industries of Massachusetts back on October 22, 1964, said:

"We are looking forward to improved conditions in your fishing industry through the commercial fish research and development act encouraged and enacted by this Congress, and we are fully aware of the shoe industry.

"I remember speaking to the shoe industry in Chicago and here again your government must be careful to watch the market and see to it that the domestic producer is not the victim of unfair foreign competition. And this government is committed to that endeavor."

In May of 1965, Senator Edward Kennedy and I co-hosted a meeting for 30 senators and 50 leading footwear manufacturers. A similar meeting was cohosted by Congressmen Burke and Bates in the House for 80 congressmen. Attendance at both meetings would have been greater had we not collided with congressional action on foreign aid and civil rights. At this time, we introduced the orderly marketing bill of 1965, S. 2022. We were unable to obtain hearing or action in the House and Senate on this bill.

Recognizing that there would be little likelihood of obtaining any action in the Senate and House in 1966 in view of pending legislation, the election, and the GATT negotiations, we deferred attempts until this year.

In all fairness, I should comment on the fact that the business and defense services administration of the U.S. Department of Commerce, cooperating with a footwear manufacturers' industry advisory committee made up of labor and industry leaders which had been set up after the meeting with President Kennedy, did provide late in 1965 $100,000 for a study of management problems in the domestic footwear industry. This effort by Government to provide assistance to the industry bedeviled by imports should not be overlooked. The study is now being digested by the footwear industry.

The time has now arrived when we must come to grips with the problem of footwear imports. I recognize this has been a long review of an exasperating, frustrating experience. Our attempts at a reasonable approach to the problem of imports have yielded far-from-satisfactory results. While this action has been going on over the years, imports of footwear have grown from an insignificant amount to approximately 25 percent of current industry output. And now we have suffered a further reduction in the duties on foreign footwear which will make imported footwear even more competitive. As a practical matter, footwear duties were already so low that further reduction will probably make little difference in the flow of imports to the United States. Consumers will get little benefits. Importers' and retailers' profit margins may improve.

The situation in footwear and other commodities calls for a thorough review by this Congress. Such a review should embrace the problems faced by American fishermen and farmers. Sixty-two percent of the fish consumed in our country today are imported. The value of ground fish imports has grown from $33 million in 1960 to $82 million in 1966. The senior Senator from Oregon, Senator Morse, has introduced legislation S. 2411 designed to keep fish import competition at realistic levels. In the Committee's consideration of import problems, I hope that emphasis will be focussed upon the need for action in this area.

Earlier this year, President Johnson took administrative action to restrict the importation of dairy products. This was in the face of dairy import competition which increased over 400 percent between 1953 and 1965. This is a problem which is national in scope. The number of farmers engaged in dairy production is decreasing each year. When you add the problem of imports to the increased cost of equipment and intensive price competition, it is small wonder that many farmers have elected to sell their businesses rather than continue. The principal loser here is the American consumer. For these reasons, I hope that the legislation introduced by Senator Proxmire designed to curb dairy imports S. 612 will also receive serious review.

At the various hearings on trade policy or international monetary problems we are inundated with views which go back to the views of Adam Smith that "the prudent man will never make at home what it will cost him more to make than to buy" and to John Stuart Mill that "the benefit of international trade is a more efficient employment of the production forces of the world." We can admit that the gains from international trade are important and that trade should be encouraged while at the same time admitting that the realities of trade in today's world (what Oscar Gass, the noted economist, called a world of quotas and buying discrimination) may call for some modification of the eighteenth and nineteenth century thinking. No one with any understanding of international relations today would argue for a major curtailment in international trade, or even high tariffs, or rolling imports back to some former base. But the time has come when we must consider the impact of imports on certain of our industries and agriculture and adopt policies which may, when necessary, be used to regulate the growth of imports to some live-and-let-live basis. Other nations do not hesitate to protect their domestic industries. Congress recognized the realities of the import situation a few years ago in setting up protection for the domestic meat industry. Similar protection has been set up for the oil industry. The long-term cotton agreement was inaugurated by Congress when imports were around 6% of domestic production or a quarter of the present level of imports to footwear. President Johnson recognized the impact of imports on the dairy industry recently when he imposed by proclamation drastic restrictions on the imports of dairy products.

Extensive claims were made as to the beneficial effects of reduced tariffs and trade barriers on our economy when the Trade Expansion Act of 1962 was presented to this Congress. But Oscar Gass said at the time, "The dish is being so wildly over-advertised I fear many now so attracted by the menu and the company will, one day, rise from the table, shamefaced, still self-consciously hungry and feeling they have been deceived."

In "Crusade for Trade" in March 19 and 26, 1962, in "The New Republic," Gass described well the character of American imports and the gross exaggerations of its importance to our economy:

"In 1959–61, United States imports of merchandise averaged about $15 billion annually. This is barely 3 percent of Gross National Product. For Great Britain, the corresponding figure is about 15 percent. Yet, such is the ascendancy of British economics over the American mind, that much of what Americans write about international trade reads as if it were counsel addressed to a British

Chancellor of the Exchequer. (Intellectually, the ascendancy is justified. We have not from any American hand anything comparable to *The Theory of International Economic Policy*, by J. E, Meade.)

"In the bad old days of the late 1920's, when United States tariffs were greatly higher, our imports were also more important—about 5 percent of Gross National Product. Many things the United States buys abroad have become relatively cheaper; synthetic substitutes have been developed for some imports; and the range of American manufacturing has broadened greatly. From a merely American point of view, and a merely economic one, the potential gain from free international trade is correspondingly less important.

"American imports declined in importance while tariffs were being reduced. In 1926–30 our duties averaged 13–7 percent of all imports. But in ten of the last fifteen years, our duties have averaged 6 percent or lower. Even when duty is related to dutiable imports alone, United States customs duties have never averaged above 12.7 percent in any year of the last eleven. This contrasts with 40 percent in 1926–30. In a world of quotas and buying discriminations, customs reductions are not an exact guide, but they do reflect a gross change.

"The most striking decline, in economic weight, has been in just those articles where we charge no customs duty at all. For about ten years now, some $6 billion of United States imports have been free of any duty. In this decade, the dollar total of our Gross National Product has increased from a range of $330 billion to $520 billion, but these customs-free imports have continued to hover around $6 billion a year, without any rising trend.

"A further reduction in United States tariffs would have impact initially through the $9 billion of imports which do pay some duty. And it would affect also other items which do not come in at all because our duty is prohibitive. Consider: what might result, at best, from the total elimination of duties on all our dutiable imports? Let us allow, as best we can, for those entrepreneurs who will be invigorated—and for those who will be killed. At how much lower cost might we then be able to buy these $9 billion of imports and also the other items now excluded? (Our exports are, of course, our means of paying for our imports.) Is it likely that, as a nat.on, we would save $5 billion a year, in any year of the 1960's, as the result of buying abroad more cheaply—and more? As costs go down, real incomes are enlarged. Yet a gain of $5 billion looks like a saving of over 50 percent derived principally from additional trading in our presently dutiable imports, now valued at $9 billion. Is such a $5 billion gain likely? If the answer is in the affirmative—if we would save $5 billion annually—our economic gain would be somewhat under one percent of our annual Gross National Product. Is a gain of the order of one percent what is now being advertised? Is this the bold new road to the future of the American economy?"

What about today? Our merchandise imports, adjusted for cost, insurance, and freight charges, which must be paid by importers, would be approximately $28 billion, or 3.6% of a 743.3 GNP in 1966. I am informed that in 1966, 63% of our imports ($16.023 billion), or about 2.4% of GNP, carried duties. If, under the stimulus of reduced duties of the Kennedy Round, dutiable imports were to increase 50%, which is quite unlikely in view of our import history, they would still be an insignificant part of GNP. And our merchandise exports last year, without defense but including those financed by government grants and loans, were only about 318% of GNP. A rise to four percent would still be relatively unimportant, and with rising costs here, and restrictive tendencies abroad, even this gain is questionable.

I think this Congress needs to know a great deal more about the details of our international trade, the flow of dutiable and non-dutiable goods, and the effect of tariffs on this flow, as well as the restrictive practices of our trading partners. But for the efforts of Senator Long, Chairman of the Senate Finance Committee, and Senator Dirksen, the minority leader, in insisting on comparable data on imports and isolating exports resulting from our aid programs, it would be even more difficult today to obtain a correct picture of what is taking place in international trade.

This Administration has used monetary and fiscal policies to achieve gains in GNP in one year equal to or greater than total of our annual merchandise exports. Our continuing problem is to maintain a viable economy at home. Otherwise, we shall not be able to help less fortunate countries. And I emphasize again this appeal is a far cry indeed from eighteenth and nineteenth century "protectionism" charge that is usually hurled at anybody who raises a warning voice against rapidly increasing imports.

I hope that the Senate Finance Committee, under the able leadership of the Senator from Louisiana, will proceed with a thorough review of our trade policy, and that we shall be able to pass S. 1446 or similar legislation to establish a live-and-let-live policy with our trading partners. If we fail to do this, when the war ends and industry is confronted with a period of readjustment, we shall find ourselves facing serious problems in maintaining full employment and a growing economy.

Senator MUSKIE. Mr. Chairman and Senator Bennett, I would like to read just enough of my statement to indicate to you the seriousness of the import problem as it affects the shoe industry.

I address myself to many of the bills that are pending before you, but especially the Orderly Marketing Act, S. 1446, which I introduced earlier this year, and S. 2540, the Orderly Footwear Marketing Act, which I introduced recently.

Senator BENNETT. May I interrupt at this point?

Senator MUSKIE. Yes; I would be happy to have you do so.

Senator BENNETT. Will you identify the shoe industry? Does it include both rubber and leather footwear, or is it essentially——

Senator MUSKIE. This is leather.

Senator BENNETT. You are speaking here essentially for leather?

Senator MUSKIE. Essentially for leather. The rubber footwear problem is just as serious, if not more serious, but I think that there are elements of their problem which are sufficiently different so that I ought not include them in this statement.

Senator BENNETT. I wanted the record to show this.

Senator TALMADGE. Proceeding further with the question that Senator Bennett asks, Senator Muskie, did the Rubber Manufacturers Association discuss this bill with you?

Senator MUSKIE. No; they did not.

Senator TALMADGE. In other words, this bill is designed only purely and simply to aid the leather footwear industry?

Senator MUSKIE. Yes. We would say this in addition: that we can't speak for the rubber footwear industry, but we think that there may be elements in their problem which might prompt them to look at this kind of legislation. That is a decision for them to make, and it would be presumptuous of me to speak for them.

Mr. Chairman, although we all recognize the need for expanded world trade, we do not think it makes sense for our workers or our industrialists or, in the long run, for industrialists and workers in other countries to depend on erratic unstable trade developments as a vehicle for economic growth.

In our domestic markets, we use a number of devices, for example, the minimum wage and hour laws, to insure fair competition among various areas of our country. We cannot apply similar requirements on foreign countries, of course.

The bills which you are now studying are designed to give those American industries which have been hardest hit by a massive flood of low-cost foreign imports time to readjust to these changed patterns of world trade.

In 1955, Mr. Chairman, footwear imports were approximately 8 million pairs, or 1.2 percent of domestic production. In 1966, imports were 131 million pairs, or an increase of 1,556 percent over 1955.

For the first 6 months of 1967 there were 94 million pairs imported, or 24 percent of domestic production.

In certain sections of the industry, such as women's casual footwear, imports for the first 6 months of 1967 equaled 119 percent of domestic output. In rubber canvas oxfords, 28 percent; in men's cemented, 30 percent; and in women's dress shoes, 28 percent.

This shocking increase in imports is most significant to me because footwear manufacturers are the largest employers of labor in the State of Maine.

It is also important to my colleagues in Massachusetts, New Hampshire, Pennsylvania, New York, Missouri, Tennessee, Illinois, and Ohio, and where substantial numbers of workers in the manufacture of footwear are employed. It is particularly serious, Mr. Chairman, to the American economy because it strikes at small business, the foundation of our economy, and the type of economic enterprise that we are trying to preserve. The majority of footwear factories are in small towns, where they are the major source of employment and income. There are over 1,200 footwear-producing plants located in over 600 communities in 42 States.

While the industry employs over 230,000 workers, and has a payroll of almost $1 billion a year, these plants are typically small business operations, many of them struggling for existence. They employ somewhere in the neighborhood of 200 workers per plant, and the total industry employs almost 235,000 workers. Another 75,000 are employed in the tanning and allied industries, which provide leather, machines, materials, and supplies for footwear.

This is not an unimportant industry. And may I say, Mr. Chairman, that there are 20 such factories in your State of Georgia. The total sales of footwear at retail approximate $6 billion.

Now we might well ask how could the import situation in footwear have developed so rapidly that it has absorbed all of the growth that the domestic footwear industry should have enjoyed in the past decade? How could imports of foreign footwear grow from literally nothing to a point where they are equal to almost a quarter of our domestic production in a little over a decade?

The answer is simple. Imports increased at this rate and will continue to increase rapidly because they are produced at wage and hour costs that are illegal in the United States. Some are being produced in plants rebuilt with American dollars in Japan and Western Europe, following World War II.

Footwear manufacture employs relatively simple machines to cut, sew, and cement footwear materials into a shoe. Techniques are practically the same from one country to another. Even with these new plants, foreign footwear manufacturers have but one advantage, and that is cheap labor.

Their wage rates are from a third to a fifth of the wages that footwear manufacturers pay in the United States. This single factor alone makes it possible for these manufacturers to compete and take an ever-increasing share of the American market.

And let me emphasize that imports are not due to inefficiency in the American footwear industry. Various studies have shown that American footwear manufacturers' productivity exceeds that abroad by anywhere from 25 to 35 percent in pairs per worker per day.

American wage rates in footwear are the highest in the world. American production workers in nonrubber manufacturing plants at the present time average an estimated $2.41 an hour, including fringe benefits.

In the rubber footwear industry U.S. workers receive $2.61 an hour, not including fringe benefits and allowances. Footwear workers in Japan make an estimated 63 cents an hour, and in Italy 78 cents an hour, including fringe benefits and bonuses. The labor cost advantage is so great that domestic footwear manufacturers, no matter how efficient, cannot compete.

Footwear imports are not essential to provide medium- and low-priced footwear to the American economy. This task has been performed by the American Footwear Manufacturers. There is tremendous competition existing among the 850 footwear manufacturers in this country.

The industry is not and never has been a high-profit one. The average footwear manufacturer earns between 2 and 3 cents on each dollar of sales last year, compared to 5.6 cents averaged by all other American manufacturing industries.

The average retail price of a pair of domestically produced shoes is only about $7.50, and 57 percent of all men's shoes and 80 percent of all women's shoes produced in this country sell at or below $11 a pair. Sixty-five percent of all children's shoes sell at or below $6 a pair. Why, then, Mr. Chairman, do imports come in?

A small part come because they offer something new and different to consumers, but the bulk come because they are produced by low-priced labor, because they are somewhat lower in price than American shoes for this reason, and provide retailers with a higher margin of profit.

Mr. Chairman, in the remainder of my statement, which I will not read, I outline what I think are some interesting facts with respect to the efforts of the footwear industry over the past 8 or 9 years to develop legislative suggestions which will give them relief while at the same time honoring the concept of trade expansion.

This industry has never taken an obstructionist point of view on this problem. It was as a result primarily of their interest that the Trade Expansion Act of 1962 incorporated an orderly marketing provision, emasculated from the concept which had been developed by the industry, but nevertheless honoring it, which has proved meaningless because of the Tariff Commission's interpretation of the triggering qualification language. Because there have been 21 applications for relief which have not produced relief, the footwear industry has not undertaken to take advantage of that provision of the law.

One of the leaders in the industry who has helped develop these concepts is our next witness, Mr. Chairman. Mr. Goldstein is originally from England, and I might suggest that the name of his company, the Plymouth Shoe Co., is eminently appropriate. It suggests that we welcome imports from abroad.

Senator BENNETT. As long as they come barefoot.

Senator MUSKIE. So I would like to present an old friend and a leader in the footwear industry, who is recognized in the industry outside of New England as well as within New England, to give you another aspect of the shoe industry's problem.

Mr. Alan Goldstein, president of the Plymouth Shoe Co., but representing the National Footwear Manufacturers Association.

Senator TALMADGE. Thank you, Senator Muskie, for a very fine statement. And before you proceed, Mr. Goldstein, you are not speaking for the rubber footwear industry, only the leather industry, is that correct?

STATEMENT OF ALAN GOLDSTEIN, PRESIDENT OF THE PLYMOUTH SHOE CO., NATIONAL FOOTWEAR MANUFACTURERS ASSOCIATION, ACCOMPANIED BY THOMAS F. SHANNON, COUNSEL; AND FRANCIS WATSON, CHAIRMAN, OF THE NATIONAL FOOTWEAR MANUFACTURERS ASSOCIATION; AND IRVING GLASS, EXECUTIVE VICE PRESIDENT OF THE TANNERS COUNCIL OF AMERICA

Mr. GOLDSTEIN. Yes, sir. We do mention, in one or two spots, figures that would include rubber footwear production to make a point, but that is all.

Senator TALMADGE. You are aware of the fact now that the Footwear Division of the Rubber Manufacturers Association has submitted a statement to this committee indicating that it is not seeking quota relief for rubber footwear at this, are you not?

Mr. GOLDSTEIN. Yes, sir, providing we understand that their present tariff arrangements or other type of arrangements would give them sufficient protection. However, should they not have this protection, we understand they would be delighted to have a quota arrangement like we are asking for.

Senator TALMADGE. Thank you, Mr. Goldstein. You may proceed as you see fit.

Mr. GOLDSTEIN. On my right, Mr. Chairman, is Thomas Shannon, the general counsel of the National Footwear Manufacturers Association. On my left is Mr. Irving Glass, executive vice president of the Tanners Council of America, and on my far left is Mr. Watson who is president of the National Footwear Manufacturers Association.

I have already submitted a detailed brief. However, because this is such a vital issue to our industry, and in particular to medium-sized manufacturers like myself, I would like to depart from the prepared brief and highlight certain important factors concerning imports, a problem I live with daily.

I am president of Plymouth Shoe Co., a typical shoe manufacturing firm employing approximately 700 workers in the town of Middleboro, Mass. whose population is under 15,000 people. This is significant when one realizes that our own average weekly payroll (dispersed by the only bank in town) is about $75,000 and essential to the welfare of this commmunity.

The burden of imports falls most heavily on medium-sized concerns like ourselves making shoes in rural and semirural communities throughout the Nation. Today, I speak for the entire domestic leather footwear industry.

Our position is also fully endorsed by our principal suppliers, the tanning industry and all of the unions in both industries, in particular, the Boot and Shoe Workers' Union, the United Show Workers Union of America and the Amalgamated Meat Cutters and Butchers' Union of America. We have heard Senator Muskie already comment on the alarming growth of imports from 1955 to 1966. What is even more disturbing to me is the first 7 months of 1967. Imports have increased by 33 percent over a year ago and are running at an annual rate of 172 million pairs. If this current rate of expansion of imports continues, imports will amount to at least 300 million pairs in 1970.

If there had been no imports in 1966 it would have required 39,000 additional workers to produce the footwear required for the American market. If imports should continue at the current rate, by 1970 at least 75,000 job opportunities will be lost.

Of great significance is the fact that our industry does employ and provide job opportunities for semiskilled labor. In the 10-year period between 1945 and 1955, our industry's growth was approximately 20 percent. Contrast this to the 12-year period between 1955 and 1967 when our growth was only 3.4 percent—from 585 million pairs to 605 million pairs—of which 15 million pairs went to the Armed Forces. Compare these figures to the following startling facts:

Leather footwear production between 1957 and 1964 increased in the EEC countries by 48 percent, in the EFTA countries by 12 percent and in the United States by a piddling 1.3 percent.

It has often been stated that the real reason behind the importation of footwear was style. This is sheer nonsense. I have attached to my brief as appendix 3 a letter from Herbert Levine, one of the world's foremost manufacturers and designers of women's high-fashion shoes who this week was cited as such in Time magazine. He stated:

> It is my considered opinion based on my 15-year knowledge of the Italian shoe market that Italy has never introduced anything from a creative point of view to the shoe business.

I might add as one who has been intimately associated with style that hand labor is often a vital factor. For example, you, Senator, may have worn leather-woven shoes. Is it conceivable that I can pay $2 an hour to weave leather, a simple operation, when in Spain, reliable sources indicate that a 16-hour day at 35–40 cents an hour including fringe benefits is the typical wage-hour structure in footwear—in fact, children may work 2 years as apprentices without compensation.

The concrete evidence of our contention concerning cheap labor is the tremendous growth of the Spanish footwear industries. From 275 million pairs exported to the United States in 1959 to nearly 3½ million pairs in 1966. Why? As labor costs increased somewhat in Italy, importers have run to Spain in order to exploit its cheaper labor.

I know of a large retail concern who today are selling two pairs of Spanish brogues equal in quality to those produced domestically for $20 when the best we can do is one pair for $20.

The domestic footwear industry is particularly vulnerable to the increasing flow of imports from behind the Iron Curtain. Since 1959, Czechoslovakia has stepped up its exports to the United States by over 900 percent, from 192,600 pairs in 1959 to over 1.7 million pairs in 1966.

Imports from these state-controlled enterprises, where costs are ignored in the drive to export merchandise for dollars, present extremely unfair competition.

It is disheartening to read that the largest supplier of munitions to Vietnam is the same Czechoslovakia. U.S. tariffs on footwear is among the lowest in the world, averaging about 12 percent on all shoes imported prior to the Kennedy round reductions.

With the most recent reductions, they are between 8 and 8.5 percent. To add insult to injury, there is a remission of taxes in most Western European countries of up to 7 percent on the value of exported products, a direct subsidy, no matter what anyone else calls it.

Furthermore, exports of footwear have fallen from 4.6 million pairs in 1955 to 2.5 million pairs in 1967. Even if our prices were competitive, and this obviously is impossible, we could not export because of hidden nontariff barriers. For example, it is unbelievable, but Japan has an embargo on many U.S. products including leather and shoes. The seriousness of the impact of imports can perhaps best be illustrated if I might refer again to my own company. I am not sure if the Senator has a teenage son or daughter or grandson who might be a teenager, but I am sure that if you do you are well aware of the fact that particularly in the city of Salt Lake that the teenage market has gone from hand-sewn moccasins where we concentrate in this teenage market, where we realized they were going into sandals which I have here in front of me, and when teenagers go, they go. And because of this factor and because we could see that we would be hurt, we decided to attempt to produce sandals which had never been done before domestically, on an assembly line basis, copying village types that are made in Chicago and Baltimore.

So we set up an assembly line process, no stitching, so we wouldn't have to have extra, and we put these together with semiskilled labor, and we were successful. We sold J. C. Penney and Hahn's here in Washington and Florsheim and on and on to the extent that we were able to hire a substantial number of people and this year I thought that we would be able to double or triple our productive capacity. Until recently, particularly at the Shoe Fair in Chicago last week, I ran into my own styling being copied in Italy, for $2.50 to $3.50 when my shoes, which I reduced in price and which carry a lower overhead, are $4.50.

As a result, instead of increasing, doubling or tripling our production I think we will be lucky if we can maintain it. We say for this reason which is typical and this is what happens to small manufacturers and others, that we hesitate to open up in Appalachia or distressed areas, for the very reason that this can happen and has been happening.

I also note with interest Ambassador Roth's statement that there are available remedies under the TEA for the relief of industries hurt by imports. This is an absolutely misleading statement. What Ambassador Roth failed to tell the committee is that 21 cases have been filed by industry and labor under the act, and 21 cases of hardship have been denied. Is it any wonder why other industries have not filed under this act? It would be a complete waste of time, effort, energy, and money.

Our industry wholeheartedly supported the Orderly Marketing Act of 1961 which has again been introduced as S. 1446 this year. We likewise wholeheartedly support S. 2540. These were not, and are not, protectionist bills. They are not bills to substantially roll back imports or raise tariffs or provide any other unrealistic treatment of imports under existing world conditions today. They recognize the administration's desire to increase and promote international trade. They are based on a live-and-let-live philosophy. They follow the general practices which have prevailed in certain other countries and, in fact, are much fairer than certain of these practices. They are all for the establishment of mandatory or negotiated quotas when necessary which would guarantee to all nations a fair share of the U.S. market. Furthermore, these nations would continue to share in the normal growth of the U.S. market.

In conclusion, we do recognize the necessity for a continuation of expansion of international trade. President Johnson, in extending the duties on glass and carpets on October 11, 1967, said:

> We are keenly aware of the importance of expanding trade . . . At the same time, we—like other nations—must maintain a fair and just concern for the well-being of those industries and employees who suffer unusual hardship from imports.

We ask no more than this for our industry.

(The prepared statement of Mr. Goldstein follows:)

STATEMENT ON BEHALF OF NATIONAL FOOTWEAR MANUFACTURERS ASSOCIATION, SUBMITTED BY: ALAN GOLDSTEIN, PRESIDENT, PLYMOUTH SHOE CO., MIDDLEBORO, MASS.

My name is Alan Goldstein, and I am President of the Plymouth Shoe Company, Middleboro, Massachusetts. I am appearing as Chairman of the National Affairs Committee of the National Footwear Manufacturers Association and its affiliate, the New England Footwear Association. These associations represent over 90 percent of the leather footwear produced in the United States.

FOOTWEAR IMPORTS HAVE RISEN 1555 PERCENT SINCE 1955

Since 1955, imports of over-the-foot footwear have risen from approximately 8 million pairs to 131 million pairs in 1966. For the first 7 months of 1967, these imports are running at an annual rate of 172 million pairs. If this current rate of expansion of imports continues, imports will amount to at least 300 million pairs in 1970.

The rapidity with which imports are cutting in on the American market is reflected in the fact that in 1966 they amounted to 16.8 percent of the domestic production of 804 million pairs. For the first 7 months of 1967, they amounted to 24.6 percent of a domestic production of 481,851,000 pairs.

The impact of imports on one category has been even more serious. For the first 7 months of 1967 imports of women's casual footwear amounted to 109 percent of domestic production, compared to 76 percent for the whole year 1966. In rubber-canvas oxfords, they amounted to 29 percent of domestic production, compared to 22 percent for 1966.

For women's shoes other than casuals, they amounted to 28 percent of domestic production, compared to 19 percent for 1966. For men's shoes (other than work and handsewns) they amounted to 24 percent, compared to 18 percent in 1966.

IMPORTS HIT SMALL FACTORIES IN SMALL COMMUNITIES HARDEST

The burden of imports falls most heavily on the small manufacturer making shoes in rural or semi-rural communities throuhgout the nation. There are over 1,200 footwear factories located in over 600 communities in 38 states and in 260 congressional districts. Employment per plant averages a little over 200 workers. The industry employs about 237,000 workers, according to the Bureau of Labor Statistics, and has a payroll of approximately $1 billion a year. The industries supplying the machinery and materials which make footwear employ an additional 70,000 people. Total footwear sales at retail are over $6 billion annually.

THIRTY-NINE THOUSAND JOB OPPORTUNITIES WERE LOST TO FOOTWEAR IMPORTS IN 1966

If there had been on imports in 1966 it would have required 39,000 additional workers to produce the footwear required for the American market. If imports should continue at the current rate, by 1970 at least 75,000 job opportunities will be lost. The impact on the economy could be extremely damaging with the return of a peacetime economy. Because of its loss of market for domestic-manufactured products, the footwear industry cannot join the President's appeal to locate factories in distressed labor areas.

IMPORTS HAVE DESTROYED PRACTICALLY ALL THE GROWTH IN AMERICAN FOOTWEAR PRODUCTION

In 1955 American manufacturers produced 585.4 million pairs of leather-type footwear. In 1967 they will produce 605 million pairs, an increase of 3.4 percent. In 1959 the United States produced 637.4 million pairs, which has been exceeded in following years only by 1966 with 646.3 million pairs.

The following table will show the growth of leather footwear production for the EEC and EFTA countries compared with the Untied States. Some of the growth in these countries has been at the expense of American footwear output.

LEATHER FOOTWEAR PRODUCTION

	1957 (millions of pairs)	1964 (millions of pairs)	Percent increase
EEC countries:[1]			
Shoes	242.0	358.0	48.0
Slippers	100.0	133.0	33.0
EFTA countries:[1]			
Shoes	151.0	183.0	21.0
Slippers	30.0	54.0	80.0
United Kingdom percent of EFTA:			
Shoes	109.0	127.0	16.0
Slippers	23.0	41.0	78.0
United States of America:			
Shoes	526.7	533.5	1.3
Slippers	70.9	79.3	11.8

[1] Source: The Shoe & Leather News, Jan. 5, 1967.

FOOTWEAR IS IMPORTED BECAUSE IT IS CHEAPER

Imports are cheaper because they are produced by low-wage labor at rates of pay that would be illegal in the United tSates. American wage rates for footwear employees are the highest in the world. American production workers in leather footwear manufacturing plants average $2.38 an hour, including fringe benefits. Workers in Japan, on the other hand, receive approximately $.65 an hour, and in Italy, approximately $.85 an hour on a comparable basis. The labor cost advantage is tremendous, and footwear imports continue to pile in over our low average duty of 14 percent. We single out these two countries because they account for the bulk of United States imports.

This is in spite of the fact that American footwear factories lead the world in productivity. Our output in pairs per worker per day is 25 to 30 percent ahead of these low-wage countries. Methods of shoe manufacturing and technology are reasonably similar here and abroad. Foreign manufacturers have new and renovated plants built after World War II. Footwear is one of the easiest products for them to produce and export. That is why wage differentials account for almost all of the price differential of domestic footwear with foreign footwear.

Other countries have recently entered the footwear export market. As a prime example, Spain has in recent years developed its footwear industry along modern lines. Between 1959 and 1966 Spain increased its imports to the United States by over 1,260 percent, from 274,000 pairs in 1959 to nearly 3,470,000 pairs in 1966. During this period of greatly increased exports, the average value per pair dropped almost 30 percent, reflecting Spain's substantial strides in modern manufacture.

Wage information on Spain is not available. Reliable sources, however, indicated that a 16-hour day at $.35–$.40 an hour, including fringe benefits, is the typical wage-hour structure in footwear. Children may work two years as apprentices without compensation. Spain, like Italy and Japan a decade ago, is just getting off the launching pad, and we can see that the momentum and impact of its shoe shipments to the United States may, in several years, exceed Italy's and Japan's.

The domestic footwear industry is particularly vulnerable to the increasing flow of imports from behind the Iron Curtain. Since 1959, Czechoslovakia has stepped up its imports to the United States by over 900 percent, from 192,600 pairs in 1959 to 1.7 million pairs in 1966. The average foreign value per pair for Czechoslovakian men's, youths', and boys' shoes in 1959 was $2.47 per pair and $2.07 in 1966. The average foreign value of women's, misses', and children's shoes in 1959 was $.60 per pair and had risen to $1.28 in 1966.

Imports from these state-controlled enterprises where costs are ignored in the drive to export merchandise for dollars present extremely unfair competition. And it must be emphasized that the flood of imports is not due to the fact that these countries are ahead of the United States in style leadership. The attached letter from Herbert Levine, former President of The Designer Shoe Guild, a group of manufacturers producing high-fashion footwear in the United States, will throw some interesting light on that point.

Imports from Low-wage Areas.

The following table will show the major sources of footwear imports into the United States. Such countries as Japan, Italy, Hong Kong, Spain, where wages are a fraction of those in the United States, are the major suppliers.

U.S. IMPORTS OF FOOTWEAR, 1955 and 1966

[In millions of pairs; dollar amounts in millions]

	1955	1966	F.o.b. foreign value	
			1955	1966
Total, all kinds [1]	7.9	132.2	$13.7	$172.6
Japan	2.8	68.8	1.1	38.0
Italy	1.2	32.0	3.0	74.7
Canada	1.0	.9	1.3	2.9
United Kingdom	.8	1.9	4.3	10.5
Mexico	.7	1.1	.5	1.5
Hong Kong	.4	3.9	.2	2.1
Switzerland	.1	.4	1.2	4.8
France	(2)	2.0	.2	5.8
Spain	(2)	3.5	(3)	10.4
Czechoslovakia		1.7		3.4
Other countries	.8	16.0	1.8	18.7

[1] Except waterproof, rubber thongs, and slipper socks.
[2] Less than 50,000 pairs.
[3] Less than $50,000.

Note: Data for 1955 does not include vinyl-supported upper footwear. It is believed vinyls were minimal.

Source: National Footwear Manufacturers Association, based on data from U.S. Department of Commerce.

FOOTWEAR INDUSTRY HIGHLY COMPETITIVE WITH LOW AVERAGE PROFIT

Footwear imports have had a marked impact on the industry, not only because they hit many small manufacturers who make similar types of footwear but because these manufacturers are in an extremely competitive business in an over-planted industry. They have a great amount of extra manufacturing capacity. The average footwear manufacturer earns between $.02 and $.03 on each dollar of sales, compared with $.055 earned in 1966 by manufacturing industry generally. According to Internal Revenue Bureau reports, almost a quarters of the reporting manufacturers earn no profit.

Imports are not needed to bring down the price of domestic footwear. According to the Bureau of Census, the average factory price of all leather shoes produced in the United States is $4.30, and the average retail price of this footwear is around $7.50. Eighty percent of all the women's footwear and 57 percent of all men's footwear sell at or below $11.00 a pair, and 65 percent of all children's shoes sell below $6.00 a pair.

THERE HAS BEEN NO RECIPROCITY IN TARIFF NEGOTIATION ON FOOTWEAR

We have given more than we have received in our trade agreement negotiations in the past, and when the facts are available, that will prove to be the case in the Kennedy Round.

Also, the scope of the United States tariff cut on footwear was greater than that on all United States imports. Whereas 80 percent of the dollar value of United States imports of footwear were subjected to cuts in the Kennedy Round, it was only 64 percent for all United States imports. Yet the depth of the cut we estimate to be over 30 percent, or about the same as for all United States products. It is evident we fared worse than other industries.

United States tariffs on footwear are among the lowest in the world, averaging about 12 percent on all shoes imported prior to the Kennedy Round reductions. With these reductions they will average between 8 and 8.5 percent. The attached document prepared by the United States Department of Commerce, which reveals regulations and duties prior to the Kennedy Round will show that we were faced with higher duties, exchange restrictions, sales taxes, subsidies, and, in some cases, licensing in selling to other countries. It is common knowledge that some Common Market countries have discriminated against exports from Japan because of low wage rates prevailing in that country.

The lack of reciprocity was clearly noted by "Business Week" back in 1962 in the following comments:

> "It is essential, however, that we treat this matter (reciprocity) from the start on a business basis. The post-war period of European weakness is over. We are now dealing with commercial equals from whom we have every right to expect a quid-pro-quo—if not some credit for one-sided concessions we have made in the past. Our new trade policy should be shaped—and used—accordingly. . . ."

As a result of this discrimination and the fact our shoes cost more money than those produced abroad, exports of footwear have fallen from 4.6 million pairs in 1955 to 3.0 million pairs in 1966 and are not expected to exceed 2.5 million pairs in 1967.

FOOTWEAR INDUSTRY'S APPEALS FOR RELIEF HAVE BEEN DENIED

In 1966 relief was sought from the United States Tariff Commission on footwear shipped at less-than-fair value to the United States from Czechoslovakia, Poland, and Rumania. Czechoslovakian workshoes are causing serious damage to the domestic workshoe industry. The United States Treasury Department found that these shoes were being sold at less-than-fair market value. The Tariff Commission, however, decided that there was no injury, and therefore, dumping duties were not assessed.

Our industry opposed the re-evaluation of the American Selling Price (ASP) in 1965 and 1966 as the base used for determing the duties applicable to imported sneakers, that is, footwear with fabric uppers and rubber soles. Despite industry protests, the government reduced the valuation base to 60 percent of its former level, thus inviting imports of many more million of pairs of rubber-canvas imported footwear.

The industry has not filed for relief under the adjustment assistance provisions of the Trade Expansion Act of 1962 because the experience of other industries and labor groups proved these provisions worthless. In the twenty-one cases that have come before the Tariff Commission, twenty-one cases were rejected. Only recently in a 2-2 decision in an antidumping case (before the appointment of the new chairman) has the Commission recognized the facts of life. We consider it fruitless to provide another case for the Tariff Commission to reject.

Conclusion

A few footwear manufacturing operations have already closed because of the influx of imports. More small footwear enterprises which, in many cases, are a primary source of employment in a community, are certain to liquidate. Prospects of further growth in the footwear industry have already gone glimmering and with them prospects for increased employment.

We recognize the necessity for a continuation and expansion of international trade. We believe, however, it should be based on a live-and-let-live policy. President Johnson, in extending the duties on glass and carpets on October 11, 1967, said: "We are keenly aware of the importance of expanding trade. . . . At the same time, we—like, other nations—maintain a fair and just concern for the well-being of those industries and employees who suffer unusual hardship from imports." We ask no more than this. These countries, whose industries have been rebuilt with American funds and which now threaten the economic future of the footwear industry, should be willing to grow with us on a live-and-let-live basis. As the market expands, they will expand their exports to us. They should not be permitted to expand at a rate which threatens to liquidate dozens of small footwear manufacturing companies. For this reason, we have supported the orderly marketing bill (S. 1446) introduced by Senator Muskie and believe that the "live-and-let-live" principle as developed in this bill is the solution to our current problems.

U.S. DEPARTMENT OF COMMERCE
BUSINESS AND DEFENSE SERVICE ADMINISTRATION
WASHINGTON, D.C. 20230

TARIFF AND TRADE REGULATIONS

(Principal Countries of Destination for U.S.-Made Nonrubber Footwear—The European Economic Community and The European Free Trade Association)

In 1966, U.S. exports of nonrubber footwear totaled 2.7 million pairs valued at $8.9 million. These exports were the equivalent of four/tenths of 1 percent of the total quantity (639.4 million pairs) and three/tenths of 1 percent of the total value ($2.75 billion) of the industry's domestic shipments.

The principal markets in order of their importance were Canada, Mexico, Bahamas, Netherlands Antilles, Hong Kong, Bermuda, Panama and the Dominican Republic. Exports to these 8 principal markets accounted for 68.7 percent of U.S. exports of nonrubber footwear in quantity and 67.8 percent of their value.

Exports to the European Common Market accounted for 4.1 percent of the quantity and 4.7 percent of the value of U.S. exports of nonrubber footwear while exports to the European Free Trade Association accounted for 6 percent of the quantity and 6.5 percent of the value.

CANADA

Imports

In 1965, Canadian imports of nonrubber footwear total 19.8 million pairs valued at $20.8 million. Italy was the largest supplier exporting to Canada 1.6 million pairs valued at $4.4 million. The United Kingdom was second with 920,781 pairs with a value of $4 million followed by Japan with shipments of 8.8 million pairs valued at $3.3 milion.

In 1966, the United States exported to Canada 685,173 pairs of nonrubber footwear valued at $2 million.

Tariff and Trade Regulations

Under the British Preferential Tariff, all nonrubber footwear imported into Canada from Commonwealth countries is dutiable at 15 to 20 percent ad valorem.

Nonrubber footwear imported from the United States and most non-Commonwealth countries is dutiable in the range of 25 to 27½ percent ad valorem. Pegged or wire fastened footwear with unstitched soles and sisal footwear is dutiable at 25 percent. Oriental sandals embroadered with gold or silver are dutiable at 25 percent. All other footwear, which includes most conventional types, is dutiable at 27½ percent.

Canada levies a Sales Tax of 12 percent on the duty-paid value of all nonrubber footwear imports.

No import licenses are required.

MEXICO

Imports

According to official Mexican statistics imports of nonrubber footwear in 1965 totaled 341,452 pairs plus 561 kilograms, valued at $652,891. The United States was the largest supplier with 189,484 pairs valued at $497,280, with Japan second with 132,782 pairs valued at $79,105.

U.S. exports of nonrubber footwear to Mexico in 1966 totaled 845,288 pairs valued at $1.2 million.

Tariff and Trade Regulations

Mexican import duties are compound, i.e., there is a specific duty and an ad-valorem duty. The latter is levied on the invoice value, or on an official valuation which is set by Mexican customs, whichever is the higher.

Specific duties for nonrubber footwear imported into Mexico range from 0.20 to 40 Mexican pesos per pair (1 peso = U.S. $0.08). In addition to these specific duties ad valorem duties ranging from 10 to 100 percent are charged.

All nonrubber footwear imports are subject to a surtax of 3 percent of the total duty, except imports by mail on which there is a surtax of 10 percent. In addition, imports of nonrubber footwear except athletic shoes and certain other footwear are subject to a surtax of 10 percent on their value.

Most nonrubber footwear is subject to Import Controls; importers must obtain licenses from the Ministry of Industry and Commerce before placing orders.

BAHAMAS

Imports

No statistical data on Bahamian imports of nonrubber footwear are available.

In 1966, U.S. exports of this type of footwear to the Bahamas totaled 292,779 pairs valued at $871,647.

Tariff and Trade Regulations

Under the British Preferential Tariff all imports of nonrubber footwear into the Bahamas from Commonwealth countries are dutiable at 10 percent ad valorem.

Imports of nonrubber footwear from other than Commonwealth countries are dutiable at 20 percent.

Import licenses are required.

NETHERLANDS ANTILLES

Imports

In 1965, imports of nonrubber footwear into Netherlands Antilles totaled 549,528 pairs valued at $1.6 million. The United States was the major supplier with 273, 492 pairs valued at $729,693. Italy was the second largest supplier with 69,300 pairs valued at $274,695, followed by the Netherlands with 88,020 pairs valued at $270,453.

In 1966, U.S. exports of nonrubber footwear to the Netherlands Antilles totaled 269,472 pairs valued at $773,664.

Tariff and Trade Regulations

Imports of nonrubber footwear of all kinds from all countries are dutiable at 6 percent ad valorem.

Import licenses for nonrubber footwear are not required.

HONG KONG

Imports

According to official Hong Kong statistics in 1965, imports of nonrubber footwear totaled 5.3 million pairs valued at $6.6 million. Red China was the major supplier shipping into Hong Kong 5 million pairs having a value of $4.8 million. The United Kingdom was the second largest supplier with 120,312 pairs valued at $620,918 with the United States third with 57,876 pairs valued at $346,179.

In 1966, U.S. exports of nonrubber footwear to Hong Kong totaled 87,676 pairs with a value of $496,117.

Tariff and Trade Regulations

There are no import duties, taxes or restrictions of any kind on the importation of nonrubber footwear into Hong Kong.

BERMUDA

Imports

In 1964, (latest available data) Bermuda imported 10,391 cases of nonrubber footwear with a value of $873,314. The United States was the largest supplier of these imports providing 6,149 cases valued at $505,831. The United Kingdom was second with 2,533 cases valued at $242,211, followed by Italy with 580 cases valued at $71,093.

In 1966, U.S. exports of nonrubber footwear to Bermuda totaled 128,219 pairs valued at $434,894.

Tariff and Trade Regulations

Under the British Preferential Tariff imports of nonrubber footwear into Bermuda from Commonwealth countries are dutiable at 7½ percent ad valorem.

All other imports of nonrubber footwear are dutiable at 10 percent ad valorem.

Bermuda levies a surchage of 10 percent on all imports of nonrubber footwear but no import license is required.

PANAMA

Imports

According to official Panamanian statistics, imports of nonrubber footwear in 1965 totaled 141,813 pairs with a CIF value of $678,850. Free Zone of Colon was the largest supplier with 97,366 pairs valued at $408,772. The U.S. was the second largest supplier with 22,567 pairs valued at $150,308.

U.S. exports of nonrubber footwear to Panama in 1966 totaled 54,491 pairs with a value of $170,322. The difference in Panamanian imports from the U.S. and U.S. export statistics probably reflect re-exports of U.S. nonrubber footwear from the Free Zone of Colon into the Panamanian market.

Tariff and Trade Regulations

Panama maintains a specific and an ad valorem duty. Imports of leather sports footwear are subject to a 5 percent ad valorem duty. Specific duties ranging from 4.80 to 30 balboas per dozen (balboa = U.S. $1.00) are charged on all other nonrubber footwear.

Panama also levies a surcharge of 2½ percent ad valorem, FOB port of origin of all imports.

Import licenses are not required.

DOMINICAN REPUBLIC

Imports

In 1964, (latest available data) imports of nonrubber footwear into the Dominican Republic total 330.479 pairs valued at about $1 million. The U.S. was the largest supplier with 11,565 pairs valued at $521,837 followed by Italy (21,951 pairs valued at $122,916) and France (69,830 pairs valued at $107,871).

U.S. exports of nonrubber footwear to the Dominican Republic in 1966 totaled 18,153 pairs having a value of $102,860.

Tariff and Trade Regulations

The Dominican Republic levies specific duties on all footwear imports. For nonrubber footwear, these duties range from 1.20 to 33 Dominican Republic dollars per dozen pairs ($RD=U.S. $1.00). Certain types of leather footwear manufactured exclusively for sports and athletics are assessed at only 60 percent of these duties per dozen, according to the size of the footwear, provided the importer produces a written statement from the manufacturer declaring under oath the use for which the shoes are intended. This statement must be certified by the Dominican Consul in the manufacturer's consular district. Shoes known as "Romeos and Juliets" are also assessed at only 60 percent of the applicable duties on other shoes manufactured of the same materials.

An excise tax of 100 percent on the FOB value is levied on all footwear imports.

A prior deposit of 80 percent of the FOB value of all footwear is required. Also a prepayment of 80 percent of import duties and taxes is required, payable at customs.

The Dominican Republic also levies a consumption tax of 15 percent on the FOB value of all footwear imports and a general surtax of 3 percent of all duties and taxes, payable at customs.

No licenses are required for the importation of nonrubber footwear.

WEST GERMANY

Imports

The Republic of West Germany is the largest importer of nonrubber footwear in the EEC. In 1965, Germany imported about 47 million pairs having a value of $108 million. Italy was the principal supplier shipping 21.5 million pairs valued at $57 million followed by France with 6 million pairs valued at $16.2 million. In 1966, U.S. exports of nonrubber footwear to West Germany totaled 52,358 pairs with a value of $201.188.

Tariff and Trade Regulations

Duties on nonrubber footwear imports into West Germany from EEC countries range from 2.2 percent to 3.4 percent ad valorem CIF. By mid-1968 these tariffs, like all other tariffs within the EEC, will be abolished.

Duties on nonrubber footwear imported into West Germany from countries other than members of EEC range from 14 to 17.2 percent, except for one item in the 64.02 classification, which is dutiable at 20 percent.

A common external tariff which will be applicable to all imports into the Common Market countries from non-EEC countries is scheduled to become effective July 1, 1968. This CXT would increase tariffs on most nonrubber footwear, making 7 items dutiable at a 20 percent rate, 2 at 18 percent, 1 at 16 percent, and one at 14 percent. It is possible that these rates may be reduced as a result of the Kennedy Round GATT negotiations.

West Germany also levies a turnover equalization tax of 8 percent on most footwear and 6 percent on footwear with soles of wood and certain other materials. This is levied on the CIF duty-paid value of all nonrubber footwear items.

No licenses are required for the importation of nonrubber footwear.

BENELUX COUNTRIES

Imports

Belgium-Luxembourg and the Netherlands are the second largest importers of nonrubber footwear in the EEC. In 1965, imports of nonrubber footwear into Benelux totaled 20.5 million pairs, with a value of $58.4 million. Italy was the principal supplier of these imports, exporting to Benelux about 8 million pairs with a value of $20.5 million.

In 1966, U.S. exports to Benelux were neglible totaling 11,506 pairs valued at $56,112.

NETHERLANDS

Imports

In 1965, Netherlands imports of nonrubber footwear totaled 9.7 million pairs and had a value of $30 million. Italy was the principal source of supply with 4 million pairs valued at $10.3 million followed by Belgium-Luxembourg with 2.4 million pairs valued at $6.5 million.

In 1966, U.S. exports of nonrubber footwear to Netherlands totaled 6,554 pairs and had a value of $31,753.

BELGIUM-LUXEMBOURG

Imports

In 1965, Belgium-Luxembourg imported 10.8 million pairs of nonrubber footwear valued at $28.4 million. Italy was the principal supplier with exports to Belgium-Luxembourg totaling 3.9 million pairs valued at $10.2 million. West Germany was second providing 1.1 million pairs valued at $3.4 million.

In 1966, U.S. exports of nonrubber footwear to Belgium-Luxembourg totaled 4,952 pairs having a value of $24,359.

Tariff and Trade Regulations

Duties on nonrubber footwear imported into the Benelux countries from other EEC countries range from 3 percent to 4.8 percent ad valorem CIF. An alternate specific duty is allowed on two items. These duties, like all other duties within EEC, will be abolished by mid-1968.

Duties on nonrubber footwear imports from non-EEC countries range from 15 percent to 20 percent ad valorem CIF. Four items are dutiable at 20 percent, 2 at 19.2 percent, 1 at 18.2 percent, 1 at 18 percent, 1 at 16 percent and 1 at 15 percent.

Effective July 1, 1968, the EEC Common External Tariff, described above, will apply to all imports of nonrubber footwear into Benelux from non-EEC countries.

In addition, Netherlands levies a turnover tax ranging from 2.04 percent to 4.7 percent on imports of nonrubber footwear, except for silk or fur house slippers which are dutiable at 29 percent.

Belgium levies a transmission tax on all nonrubber footwear ranging from 7 to 14 percent while Luxembourg charges a 3 percent import tax and a 3 percent turnover tax on all nonrubber footwear imports. Turnover, import and transmission taxes are levied on the duty-paid CIF value of all nonrubber footwear imports into Benelux countries.

No licenses are required for the importation of nonrubber footwear into Benelux.

FRANCE

Imports

France was the third largest importer of nonrubber footwear in the EEC in 1965. That year France imported 9.9 million pairs with a value of $20 million. Italy was the principal source of supply providing some 3.8 million pairs, valued at $12.1 million. West Germany was second with 965,190 pairs, valued at $1.7 million.

In 1966, U.S. exports of nonrubber footwear to France totaled only 23,445 pairs, valued at $111,688.

Tariff and Trade Regulations

Duties on nonrubber footwear imported into France from EEC countries range from 3 to 5 percent, however by mid-1968 these tariffs will be abolished.

Effective July 1, 1968 the Common Market External Tariff, described above, will apply to all nonrubber footwear imported into France from non-EEC countries. Duties on imports of nonrubber footwear from non-EEC countries range from 16.4 to 18 percent.

France levies a sales tax of 25 percent on the CIF duty-paid value of all nonrubber footwear imports.

No import licenses are required.

ITALY

Imports

In 1965, imports of nonrubber footwear into Italy totaled 1 million pairs and had a value of $1.3 million. Data on imports by country of origin are not available for the full year, however during the first six months of 1965, 63,249 pairs valued at $145,862 were imported from France, and 27,233 pairs valued at $60,069 were imported from West Germany.

U.S. exports of nonrubber footwear to Italy in 1966 totaled only 25,299 pairs and had a value of $45,962.

Tariff and Trade Regulations

Duties on imports of nonrubber footwear into Italy from EEC countries range from 3.2 to 3.6 percent ad valorem CIF. These duties, like all duties within the EEC will be eliminated on July 1, 1968.

Duties on imports of nonrubber footwear from countries other than EEC range from 14 to 20 percent ad valorem CIF. These are substantially the same as those of the Common External Tariff which will be applicable to all nonrubber footwear imports into the EEC after July 1, 1968.

Italy levies a compensatory import tax of 4.8 to 5.4 percent of the duty-paid value depending on the kind of nonrubber fotwear imported. Also a sales tax of 4 percent of the CIF duty-paid value is levied on all nonrubber footwear imports.

Italy requires no licenses for the importation of nonrubber footwear.

UNITED KINGDOM

Imports

In 1965, the United Kingdom was the largest importer of nonrubber footwear in the European Free Trade Association (EFTA). United Kingdom imports of this footwear totaled 15.8 million pairs at a value of $32.4 million. Data on quantity and value of U.K. imports by country of origin are not available. However, U.K. imports of all kinds of "footwear, gaiters, and the like" totaled $50.3 million of which Hong Kong supplied $13.2 million and Italy $12.1 million.

In 1966, U.S. exports of nonrubber fotwear to United Kingdom totaled 74,518 pairs, valued at $228,601.

Tariff and Trade Regulations

Imports of nonrubber footwear into United Kingdom from EFTA countries and Ireland are duty free.

The United Kingdom gives a preferential rate of duty of Commonweath countries which admits most nonrubber footwear items duty free. Cetain limited use items containing more than 5 percent by weight of silk, manmade fabric, or both and fur are dutiable at 20 percent.

Imports of nonrubber footwear from other than Commonwealth and EFTA countries range from 15 to 30 percent ad valorem. For some items there are alternative rates between a fixed percentage and a specific 3s rate. (U.S. $0.42 cents) whichever is higher. Certain other items take specific duties ranging from 10d. ($0.11⅔) per pair to 4s. ($0.56) per pair. Some items, except children's footwear meeting certain specifications are subject to a 10 percent purchase tax on their CIF duty-paid value.

U.K. imports of nonrubber footwear require no licenses.

SWEDEN

Imports

In 1965, Sweden was the second largest importer of nonrubber footwear in EFTA with imports totaling 12.2 million pairs, valued at $31 million. Italy was the principal source of these imports supplying 4.1 million pairs with a value of $13.4 million followed by Japan with 1.3 million pairs, valued at $658,741.

In 1966, U.S. exports of nonrubber footwear to Sweden totaled 36,734 pairs, and had a value of $144,225.

Tariff and Trade Regulations

Imports of nonrubber footwear from EFTA countries are duty free. All other imports are levied a 14 percent duty on the CIF value.

All nonrubber footwear imports into Sweden are subject to a 10 percent turnover tax on the CIF duty-paid value. No import licenses are required.

SWITZERLAND

Imports

In 1965, Switzerland was the third largest importer of nonrubber footwear in EFTA. That year 6.9 million pairs valued at $23.3 were imported. Italy was the principal source of supply with 2.7 million pairs valued at $10.8 million. West Germany was the second largest supplier with 1.3 million pairs, valued at $4.5 million.

In 1966, U.S. exports of nonrubber footwear to Switzerland totaled 34,602 pairs, valued at $162,433.

Tariff and Trade Regulations

Switzerland levies specific duties on imports of all items of nonrubber footwear from countries other than EFTA countries, imports of which enter duty free. These specific duties are in the range of 55 to 350 francs per 100 kilos. (1 franc= U.S. $0.23).

Switzerland also levies a sales tax of 5.4 percent of the CIF duty-paid value of all imported nonrubber footwear.

No licenses are required for the importation of nonrubber footwear into Switzerland.

NORWAY

Imports

In 1965, Norway was the fourth largest importer of nonrubber footwear in EFTA. That year Norway imported 953 metric tons of nonrubber footwear, valued at $8.1 million. Pairage data are not available. West Germany was the principal supplier to the Norwegian market with 224 metric tons, valued at $2.1 million. Italy was the second largest supplier providing 145 metric tons, valued at $1.7 million.

In 1966, U.S. exports nonrubber footwear to Norway totaled 678 pairs valued at $3,330.

Tariff and Trade Regulations

Imports of most items of nonrubber footwear into Norway from EFTA countries enter duty free. Three items, however, have specific duties in the range of 3.30 to 6 Norwegian crowns per kilo. (1 crown=$0.14).

Imports from countries other than EFTA members are dutiable in the range of 0.80 to 20 crowns per kilo with most items dutiable in the 10 to 20 crown range. Certain footwear have a percentage ad valorem duty, notably slippers and other house footwear which take a 20 percent ad valorum duty. Footwear with uppers of furskin is dutiable at 60 crowns per kilo.

Norway levies a turnover tax of 13.64 percent on the CIF duty-paid value of all imported nonrubber footwear.

No licenses are required for the importation of nonrubber footwear into Norway.

DENMARK

Imports

In 1964 (latest data available), Denmark was the fifth largest importer of nonrubber footwear in EFTA. In that year Denmark imported 2.7 million pairs with a value of $7.4 million. Italy was the largest supplier with 1.1 million pairs valued at $3.1 million followed by West Germany with 457,700 pairs valued at $1.9 million.

In 1966, U.S. exports of nonrubber footwear to Denmark totaled 7,494 pairs with a value of $18,970.

Tariff and Trade Regulations

Imports from EFTA countries enter duty free while imports from other countries are dutiable at rates ranging from 15 to 25 percent ad valorem. Footwear with uppers of leather or composition leather, dutiable at 25 percent take a minimum duty of 1,000 Danish crowns per kilo (1 crown=$0.145).

Denmark levies a turnover tax of 12.5 percent on the CIF duty-paid value of nonrubber footwear imports.

No licenses are required for the importation of nonrubber footwear into Denmark.

AUSTRIA

Imports

In 1965, Austria was the sixth largest importer of nonrubber footwear in the EFTA. That year Austria imported 1.4 million pairs with a value $5.4 million. Italy was the principal supplier with 737,404 pairs valued at $2.4 million and West Germany was second with 342,274 pairs valued at $1.5 million.

In 1966, U.S. exports of nonrubber footwear to Austria totaled 1,354 pairs valued at $11,012.

Tariff and Trade Regulations

Imports of nonrubber footwear into Austria from EFTA countries enter duty free.

Import duties on nonrubber footwear from other than EFTA countries range from 25 to 29 percent ad valorem. A 10 percent reduction of certain of these duties is available upon individual application by the importers for preferential treatment. This reduction, however, is of a temporary nature and may be revoked at any time.

A turnover tax of 8.25 percent is levied on the CIF duty-paid value of imported nonrubber footwear.

Import licenses are required, but are freely granted.

FINLAND

Imports

In 1965, Finland was the second smallest importer of nonrubber footwear in the EFTA. Finnish imports that year totaled 920,671 pairs with a value of $2.5 million. Italy was the principal supplier providing 236,185 pairs valued at $1 million followed by West Germany with 91,546 pairs valued at $341,000.

U.S. exports of nonrubber footwear to Finland in 1966 totaled 8,423 pairs valued at $14,902.

Tariff and Trade Regulations

Imports of nonrubber footwear into Finland from EFTA countries are dutiable in a range of from 2 to 9 percent, with a few items requiring a minimum duty of 0.36 to 1.20 Finmarks per kilo (1 Finmark=U.S. $0.32).

Imports of nonrubber footwear from countries other than EFTA members are dutiable in the range of 20 to 30 percent ad valorem with certain specified minimums ranging from 1.20 to 7 Finmarks per kilo.

Finland levies a turnover tax of 12.4 percent on the CIF duty-paid value of all nonrubber footwear.

Imports of nonrubber footwear with outer soles of leather, composition leather, rubber, or artificial plastic materials require import licenses. .

Finnish imports of all footwear are under a 1967 quota of Fm. 14 million.

PORTUGAL

Imports

Portugal is the smallest importer of nonrubber footwear in the EFTA. In 1965, imports totaled only 79,241 pairs with a value of $92,806. Macao was the principal supplier with 69,292 pairs valued at $36,102 followed by France with 1,680 pairs valued at $21,424.

In 1966, U.S. exported no nonrubber footwear to Portugal.

Tariff and Trade Regulations

Portugal levies specific duties on imports of nonrubber footwear. Imports of all footwear from EFTA countries are duty free, except for two items. Imports of footwear of fabrics of silk or manmade textile fibers are dutiable at 100.8 escudos per pair (1 escudo equals $0.035). Certain other footwear with soles of unspecified materials are dutiable at 16.8 escudos per pair.

All imports of nonrubber footwear from countries other than EFTA are dutiable in the range of 28 to 168 escudos per pair.

Portugal levies a transactions tax of 7.7 percent on the duty-paid CIF value of all nonrubber footwear.

Licenses for the importation of nonrubber footwear are required, but are freely granted.

U.S. EXPORTS OF NONRUBBER FOOTWEAR TO MAJOR COUNTRIES; EEC, AND EFTA COUNTRIES, 1966

[Quantity in pairs, value in U.S. dollars]

	Quantity	Value
Major countries:		
Canada	685,173	1,973,650
Mexico	345,288	1,179,460
Bahamas	292,779	871,647
Netherland Antilles	269,472	773,664
Hong Kong	87,676	496,117
Bermuda	128,219	434,894
Panama	54,491	170,322
Dominican Republic	18,153	102,360
Total	1,881,251	6,002,123
EEC countries:		
West Germany	52,358	201,188
France	23,445	111,668
Italy	25,299	45,962
Netnerlands	6,554	31,753
Belgium-Luxembourg	4,952	24,359
Total	112,608	414,930
EFTA countries:		
United Kingdom	74,518	228,601
Switzerland	34,602	162,433
Sweden	36,734	144,225
Finland	8,423	14,902
Denmark	7,494	13,970
Austria	1,354	11,012
Norway	678	3,330
Portugal		
Total	163,803	578,473
Other countries	578,881	1,860,392
Grand total all countries	2,736,543	8,855,918

Source: FT-410 reports, Bureau of the Census.

APPENDIX III

New York, N.Y.,
March 27, 1964.

To Whom It May Concern:

It is my considered opinion, based on my fifteen-year knowledge of the Italian shoe market that Italy has never introduced *anything* from a creative point of view to the shoe business, during these fifteen years. Rather, the Italian shoe market is based on craft, availability of workers, and cheap wages . . . but their "creativity" is always derivative.

This is borne out in Footwear News' issue of March 15, where on the front page in the story "Outlook Gloomy at Italian Show" is indicated that the Italian shoemaker does not know what to make, but is willing to make anything once told. I found the same experience eight weeks ago when I was in Italy, and I happen to have dealings with two or three of what are considered the most "creative" shoe manufacturers in Italy. I was told point blank "Tell us what to make."

I have just been approached as further evidence by the leading manufacturer of quality and creative shoes in the Far East who wants to enter the American market, and asked the same question as the Italians.

One point as illustration in relation to the above: I am enclosing a copy of Life Magazine of January 21st, 1957 showing the introduction by us of the Cyrano Last. This name was registered June 25th, 1956 by us, and the shoes were presented for the first time in April of 1956 by us, and the shoes were presented for the first time in April of 1956 and were delivered again for the first time in August of 1956. This was the introduction of the pointed toe which, once again, Italy "seized upon" quickly and supposed "introduced." I can submit shoes from France, the United States, and Italy to prove this point. I can also submit ads which were run during that period to prove the point as well.

Actually, it is a pity that in your rebuttal you will be forced to rely on one or two of these items for I can cite ten during the last fifteen years of the postwar perior (with proof) of the derivative nature of Italy's creativity. In my opinion, which I would love to testify on, all the creative trends in the footwear field in the last fifteen years have come either from America or from the custom bottier in France, and from nowhere else.

I make all of the statements above as an American shoe manufacturer who is also engaged in the importation of shoes from Italy so that my knowledge is in relation to both markets and not just that of the United States. I would be v ·y happy to send you additional information and details, as well as shoes if you so desire.

HERBERT LEVINE, INC.
HERBERT LEVINE.

STATE OF NEW YORK
County of New York ss:

Sworn and subscribed before me this 27th day of March 1964.

MARY M. GROSS, *Notary Public.*

Senator BENNETT. Thank you very much, Mr. Goldstein.

(Discussion off the record.)

Senator MUSKIE. Senator, two or three times since I have been here the industry has put on exhibits of shoes, comparing American produced shoes with foreign produced shoes which are identical in style, and showing the difference in price. That exhibit is always a startling one to people who see it, because a shoe manufacturer may be able to detect the difference, but you and I could not, and the price differences are amazing.

(Discussion off the record.)

Senator MUSKIE. Senator, we have one other representative of industry, Mr. Glass of the Tanners' Council of America. He is not scheduled as a witness. He has a statement which I wish we might include in the record.

Senator BENNETT. It will be received without question and we will be happy to have it as part of the presentation of the shoe industry.

(The prepared statement of Mr. Glass referred to by Senator Muskie follows:)

STATEMENT OF IRVING R. GLASS, EXECUTIVE VICE-PRESIDENT TANNERS' COUNCIL OF AMERICA, INC.

The following statement is submitted on behalf of the tanning industry of the United States and of the various leather-consuming industries such as shoes, gloves, handbags, industrial gloves, baseball gloves and small leather goods.

Mr. Chairman and distinguished members of the Senate Finance Committee: The subject to which you are directing your attention at these hearings is in our opinion the most crucial economic issue before the country. It is of vital importance to U.S. tanners and their customers in a wide range of industries. The present trend of foreign trade means that these industries will not be able to maintain their present scale of production. Our domestic markets are being taken over by foreign shoes, leather and leather products. Inevitably jobs will be lost in hundreds of communities, jobs of the kind which the past summer has proven are essential to our social as well as economic stability.

I deny absolutely the protectionist label which certain quarters have tried to pin on us recently. We are not here to espouse any traditional or conventional tariff argument. We are here, rather, to urge a policy as much in the interest of the rest of the world as of our own country.

The facts which compel us to urge a decisive change in our national trade policy are clear and simple. The statistics appended to this statement are unanswerable. In less than a decade foreign shoes, foreign leather, foreign leather products have become dominant factors in our domestic markets, in our consumption. In the first 8 months of 1967 imports of shoes reached 23% of our own production. The U.S. is importing this year almost 50% of our handbag usage, 70% of our baseball glove consumption, 40% of our industrial work gloves and similar proportions in a variety of other leather goods.

I point out to you that the situation described by the facts is not of our making. We are competitive free enterprise industries. The fantastic growth in imports does not reflect complacency, indifference, lack of technological progress. On the contrary, we have reason to be proud of our productive achievements and the contribution we have made in terms of value to U.S. consumer living standards.

This import situation is the direct result of two factors. You know the first—The incredible discrepancy between wage costs abroad and our own wage structure. The mandated minimums for our industries are anywhere from two to fifteen times higher than average wages of competitive industries abroad. The second factor is the consistent lack of reciprocity from abroad for a generation. Our own markets have been free and open to all comers. That is not the case in country after country where directly or indirectly the obligations of reciprocity have been ignored or abused.

May I cite a flagrant example: We are still virtually barred from shipping leather and leather products to Japan, although that country buys U.S. hides in huge quantity and then returns finished leather products to us. Where the foreign barriers are not direct they are equally destructive to us. In Western Europe the exporters of shoes or leather or leather products to the United States are given a remission of internal turnover tax, a benefit which ranges from 5% to 20%. The average rate of profit in our own industry is far less than such tax remission.

Here is a circular letter from an Argentine tanner offering leather to the U.S., and I quote: "Our government has but recently introduced certain exchange regulations which go to make our basic prices very competitive in the international field." The reference is to the means used by the Argentine government to subsidize the export of leather from that country.

You will be interested to know that the mirror image of our acute import problem is the accelerated flow of raw material out of the United States. Last year we exported 39% of our raw material cattlehides and 28% of our raw calfskins. These raw materials traveled thousands of miles from our ports and for the most part were returned to us as finished products, as shoes or other goods to be sold in the retail markets of the United States. The economic absurdity of the United States becoming a raw material supplier to developed and underdeveloped nations abroad is explained by the same facts I have already outlined: The inequitable and non-reciprocal trade posture which so many other countries have maintained for so long.

It is not surprising that the cumulative result of non-reciprocity for U.S. industry and the huge disparity in wage rates at home and abroad now produces startling results. The question implicit in the facts is—Shall we abdicate the role of manufacturing in products such as ours, products in which labor is a significant component?

I submit to this Committee that the economic condition afflicting us is more widespread than the nation has been led to believe. We have been told repeatedly that the United States enjoys a favorable balance on trade account. Our total exports are supposed to exceed our imports. We believe the reverse is true. When the export side of the trade ledger is adjusted for Government financed shipments and the import side corrected to take account of freight costs there is red ink instead of black on the ledger. We cannot help wondering why the true facts have not been made public and noted.

We see only one answer to the basic problem. Trade traffic on the commercial bridge between the United States and the rest of the world must be governed by the rule of reason, so that the bridge itself will not collapse. Our industry urges enactment of the principle embodied in the so-called Orderly Marketing Bills to the end that the manufacturing base of our economy shall not be destroyed. We ask for reasonable measures of trade traffic control to redress and moderate the imbalance which now exists. We do not ask for the exclusion of foreign competition but only for the enactment of a general principle already applied in certain instances. If this concept of reasonable and moderate control has been found justifiable for certain products such as textiles, oil, meat or dairy goods, why is it not justifiable and applicable to all other products?

We take the most vigorous exception to the criticism leveled at the Orderly Marketing principle. It will not destroy the structure of foreign trade or international trade agreements. We are the victims of non-reciprocity and non-tariff trade obstacles and evasions. Let the score be balanced by countries who have been derelict in their duty before we even think of charging ourselves with sin. Orderly Marketing controls will not subject U.S. consumers to the risk of higher prices in the marketplace and for a very simple reason: The application of orderly marketing restraints would not void competition from abroad and certainly not diminish competition among domestic producers. It would merely prevent irreparable damage to domestic production facilities and irreparable loss of job opportunity. We can be certain that the competitive role of foreign merchandise will not be diminished when imports are given the privilege of sharing in our growth rather than pre-empting it entirely.

The attention of thousands of plants and hundreds of thousands of workers in hundreds of communities across the country is now turned to the Congress. Jobs are at stake, gentlemen, and once the tide of imports erodes job opportunity the underpinnings of our economy will be exposed to progressive destruction. The question being asked at the grass roots is pertinent and straightforward—What will be done to give domestic industry the opportunity of surviving in the flood of imports from abroad? And it will be expected that reasoned action by the Congress will not be discretionary, that economic equity transcends the size or political voice of various segments of business.

Our industry endorses the realistic concept set forth in the Orderly Marketing Bill (S. 1446) and urges the enactment of that concept before it is too late for us and for many other domestic producers.

U.S. FOREIGN TRADE—SHOES, LEATHER, ALL LEATHER MANUFACTURES

SHOES

[In thousand of pairs, excluding rubber]

	Imports	Exports		Imports	Exports
1957	10,901	13,913	1963	62,820	8,628
1958	23,491	13,434	1964	75,372	8,540
1959	22,277	11,398	1965	87,632	7,830
1960	26,617	9,400	1966	92,665	8,856
1961	36,688	8,882	8 months 1966[1]	68,861	
1962	55,057	8,698	8 months 1967[1]	88,650	

LEATHER

[In thousands of dollars]

1957	31,568	21.936	1963	47,920	40,759
1958	31,330	24,715	1964	52,664	40,551
1959	48,340	26,575	1965	66,998	39,474
1960	41,447	31,800	1966	74,996	41,583
1961	41,052	46,257	8 months 1966[1]	59,300	
1962	52,875	33,848	8 months 1967[1]	66,700	

ALL LEATHER MANUFACTURES

[In thousands of dollars]

1957	54,319	24,242	1963	143,214	17,084
1958	60,626	23,817	1964	168,128	16,545
1959	84,016	23,537	1965	201,200	22,110
1960	100,196	21,722	1966	243,365	24,530
1961	108,572	20,360	8 months 1966[1]	171,200	
1962	150,485	18,957	8 months 1967[1]	214,700	

[1] Preliminary.

Mr. GLASS. If I can impose on your time for 30 seconds, Senator, I would like to observe that our experience has indicated that the forebodings of the shoe manufacturing industry as expressed by Senator Muskie and Mr. Goldstein are not idle. We have a concrete example.

Last year we imported approximately 70 percent of the baseball gloves used in these United States, the home of baseball.

Senator BENNETT. Made where?

Mr. GLASS. Japan, and the primary factor behind that importation is that the same basic cost, a fundamental labor discrepancy which cannot be bridged and which has never been bridged.

Senator MUSKIE. There is another interesting incident Mr. Glass told me about earlier today. He told me of a large retail store in the east, and I won't narrow the location any more than that, but it is a really large one. Last year 31 percent of its total sales were imports. It expects that its total retail sales in this country this year will include 46 percent imports.

Now, if this figure were projected across the country in all retail sales, the potential impact of imports upon those domestic manufacturers who produce at retail for the American market is a very real one. It is a rather dramatic figure, I believe, that 46 percent of the retail sales of a large American retailer will be of imported goods.

Senator BENNETT. Our problem fundamentally, and we have faced it ever since I have been in the Senate is how can we maintain a high-cost economic island in a low-cost world, and one of the ways is you have to build some brick walls.

Senator MUSKIE. You cannot build military aircraft in every State in this country, Senator, and it is in this area that we are getting an increasing percentage of our foreign export trade. States that produce the shoes and the retail items are the relatively less developed States of our country and they are the States which are going to feel the full brunt of trade expansion, unless we can come up with some kind of adjustment policy which enables them to adapt to an orderly sharing of our markets.

The present situation permits foreign manufacturers in countries like Japan and Italy to concentrate on particular areas of our retail market, knock them out, take them over, and then concentrate in another one. This isn't the result of any political conspiracy, but is the result of the national operation of the competitive enterprise instinct. We are very vulnerable to that sort of thing.

Senator BENNETT. You from New England are discovering that there are some Yankee traders around the world with strange dialects and accents.

Senator MUSKIE. And I suspect we taught them some of the lessons, Senator.

Senator BENNETT. Thank you very much, Senator and Mr. Goldstein and others.

(Following are communications received by the committee expressing an interest in the preceding subject:)

STATEMENT OF HON. EDWARD W. BROOKE, A U.S. SENATOR FROM THE STATE OF MASSACHUSETTS, IN SUPPORT OF A QUOTA ON SHOES

The shoe industry of this country was founded in Massachusetts in 1629, and Massachusetts is now the producer of 18.8% of the Nation's shoe output. The shoe, leather, and allied industry is today the second largest employer in the

Commonwealth. Many of the Massachusetts companies make low-priced shoes which are particularly subject to import competition since the controlling factor in the cost of production is the cost of labor. Foreign manufacturers, whose workers are not protected by minimum wage and hour standards, can produce the same shoes at a much lower cost than can an American company. The difference is so great that, even with the addition of a tariff, foreign-made shoes can be sold in this country at a lower price than the same shoes manufactured domestically. And American retailers will understandably purchase the lower priced foreign shoes. In fact, imports have now captured 24% of the domestic market.

As a result of this unfavorable competitive situation, many manufacturers have been forced to close down. In 1966 alone, the number of footwear companies in Massachusetts declined from 185 to 176, approximately 5%; 3000 persons lost their jobs.

There is every expectation that this trend will continue. Although the American delegation to Geneva withheld several footwear items from tariff reduction, 19 of the 27 footwear tariffs were reduced, 15 of them the full permissable 50%. These tariff reductions can only accelerate the decline of the American footwear industry. It appears that the number of manufacturers will be reduced annually, and thousands will be jobless, while foreign manufacturers will be the only ones to profit from our expanding domestic market.

The footwear industry has served the nation well for over 300 years. It is not, in my opinion, an expendable industry. It is a vital part of the nation's economy, and special attention should be given to its present plight..

For this reason, I am a co-sponsor of S. 2540. This bill would permit importation of shoes in an amount equal to the average annual importation in the years 1962–1966. This quota would rise each time the domestic market rose by 5%, thus giving imports a fair share in our domestic market.

I feel S. 2540 represents an equitable solution for the problems of our domestic shoe industry and I urge the favorable consideration of this Committee.

WASHINGTON, D.C.

TOM VAIL, Esq.,
Chief Counsel, Committee on Finance,
New Senate Office Building,
Washington, D.C.

DEAR MR. VAIL: I am writing, in behalf of the Footwear Division of the Rubber Manufacturers Association, in response to Senator Long's announcement of the Finance Committee's forthcoming hearings on import quota legislation. The members of this Association account for the production of most of the waterproof footwear (TSUS #'s 700.51, 700.52, 700.5320, and 700.5340) and rubber-soled footwear with fabric uppers (700.6005, 700.6015, 700.6025, and 700.6030) made in this country.

Rubber footwear is a labor-intensive industry, with labor costs constituting in excess of 50% of the total cost of production. It is a high wage industry, with average hourly earnings (including fringes) of close to $4.00. It is an industry which in recent years has witnessed a steady decline in both domestic consumption and shipments of waterproof footwear, and a 1966 decline of 5% in the production of rubber-soled, fabric-upper footwear. Our decline in production reflects itself in a decline in employment: the Bureau of Labor Statistics reported 24.5 thousand production workers in 1965, 23.6 thousand in 1966, and an average of only 20.3 thousand for the first seven months of 1967.

This is an industry which no longer has an export market, having lost it to low-cost producers in Japan. Moreover, a substantial, and growing, share of our domestic market has been taken by producers in Japan, Formosa, Korea and Hong Kong. In each year since 1959, imports of waterproof footwear have exceeded 20% of domestic consumption (in contrast to 1.2% in 1956), and for the first seven months of 1967 imports have reached a new high of 36.7%. Imports of rubber-soled, fabric-upper footwear have exceeded 15% of domestic consumption in each year since 1962, and for the first seven months of 1967 have reached a new high of 22%.

The success which rubber footwear imports have enjoyed is attributable in some measure to actions of our own Government. In 1962 the Bureau of Customs arbitrarily removed synthetic rubber waterproof footwear from the American

Selling Price method of valuation, despite the indistinguisability of synthetic and natural rubber. In 1965 the Executive Branch urged the domestic industry to accept a 60% conversion of the 12½% ASP rate on natural rubber waterproof, obtained our reluctant consent to such a conversion, and then proceeded to pull the rug out from under us; despite the conscientious effort of the Finance Committee to get a 60% conversion, the rate was cut to 37½%. And in 1966, without reference to the facts of foreign trade, to the economics of the domestic industry, or to its own precedent of thirty years' standing, the Treasury arbitrarily changed its guidelines for administering ASP, with the result that it effectuated a unilateral 35% cut in the level of protection for rubber-soled footwear with fabric uppers.

In the face of all of the above, the rubber footwear industry has been gravely concerned about its future and indeed about its very survival. It has for several years given serious thought to the desirability of seeking import quotas. We have however, thus far rejected the quota approach, for the following reasons:

1. Despite our setbacks, we feel that our products, our initiative, and our workmanship are superior to those of our foreign competitors, and we are not yet ready to give up the vigorous battle for consumer preference which we are waging in the domestic market;

2. Our confidence in the Government's sensitivity to our problems has been partially restored during the past several months. After Ambassador Roth and his colleagues thoroughly probed and sifted the arguments of domestic producers and of importers, this industry emerged from the Kennedy Round without any further cut in the rates of duty on its products. In addition, there is reason to believe that the Government is responding to our plea not to remove ASP from rubber-soled, fabric-upper footwear without giving us time to adjust and without taking into account the recent upsurge of imports from such extremely low-cost countries as Formosa and Korea. It is no secret that the Administration's bill to extend the Trade Expansion Act contains a provision to convert ASP on rubber footwear to a rate of 20% plus 25¢ but not lower than 58%, effective January 1, 1971. While this bill would in no way increase our present level of protection, it would at least assure us time to try to improve our competitive position against imports.

Thus, we are not quite ready to throw up our hands and plead with the Congress for quotas on imported rubber footwear. We hasten to add, however, that that day may yet come. Indeed, we foresee its arrival under any of the following circumstances:

1. If the Congress rejects the Rubber Footwear section of the Administration's trade bill, and if it then converts ASP at a lower rate and at an earlier date;

2. If we are wrong in our judgment that, given time, the quality of our products will win out over the cut-rate prices of our import competition; and/or

3. If Congress decides to legislate quotas for industries whose production, employment, financial, export, and import statistics are less discouraging than our own. In this circumstance, we would surely expect to have such a change in national trade policy made applicable to the rubber footwear industry.

I would appreciate your making this letter part of the record of the Committee's hearing.

Very truly yours,

MITCHELL J. COOPER.

C. L. ALGER & CO., INC.,
Abington, Mass.

SENATE FINANCE COMMITTEE,
Senate Building,
Washington, D.C.
(Attention: Chairman of The Senate Fin. Committee.)

DEAR MR. CHAIRMAN: After much discussion with many of our customers and the officers of this company, we decided to add our word by letter, if not by our presence, at this Presidential Congressional Hearings conducted by the Senate Finance Committee on Import quotas.

As we are allied to the shoe industry and the sporting goods industry, we felt the increasing effect of imports in the sporting goods industry and now in the shoe industry.

On June 26, 1964 the writer sent a letter to President Johnson, a copy of which is enclosed, and I think it speaks for itself, and our feelings regarding this particular industry.

I understand that today the figures used in this letter are considerably higher, and in this year of 1967 and 1968 season that, in all probability, around 85% to 86% of all baseball gloves used in this country will be manufactured in Japan.

It is very hard for the writer to understand why industries of this caliber and like ours, are considered to be expendable. If for no other reason than the loss of the income taxes due this country. I simply have added this first because our Government does not seem to take into consideration the human equation of its people in these industries.

As we are heavily allied to the shoe industries and namely to some of the cheaper grades, we are again affected by imports of companies able to manufacture shoes cheaper than those made in this country. It has been our thought and policy that we never feared that which could be seen or known, but today many of us are groping in the dark, wondering from what angle we will next feel an attack.

In closing may I refer to a condition which I am certain must have gone through your mind many times. If these industries, particularly the shoe industry, continues on its present course, and we ever have a major conflict, or national emergency which affects our imports, we wonder where we are going to be able to get shoes to put on the feet of our fighting men.

Sincerely yours,

HAROLD F. DAVENPORT.

JUNE 26, 1964.

President LYNDON B. JOHNSON,
The White House,
Washington, D.C.

DEAR MR. PRESIDENT: The writer has been greatly concerned over a period of years to see a large portion of our business disappear. We are a small concern, so it didn't take too long to analyse where our losses were coming from, and it occurred to me that since business friends of ours in the sporting goods trade have had contact with about everyone but you, maybe we should make a last appeal to you.

The loss of business I speak of occurs in the manufacture of baseball gloves, and we are one of the many component part suppliers to organisations like Wilson Sporting Goods Company, Brunswick-McGregor, Rawlings Manufacturing Company, and many others. We have seen these companies squirm, wiggle, and try to do everything humanly possible to stay in business, and to stop the encroachment of Japanese made baseball gloves from ruining their business. Many small manufacturers have gone out of business.

There are approximately 6,000,000 baseball gloves sold in the U.S. each year. At one time obviously they were all made in this country. This country's exports on baseball gloves have never been too high, but we are now in a position where we are importing approximately 3,500,000 gloves per year, and manufacturing somewhere in the neighborhood of 2,000,000 to 2,500,000. We, therefore, have watched these companies move into small country towns trying to get reduced overhead. We have seen them move into Puerto Rico. We have seen them try pre-dating their merchandise, and many different ways too numerous to mention, but none of these have proven successful against this huge onslaught of more cheaply manufactured baseball gloves. Even those in Puerto Rico have had to try to regroup and consolidate and are still not competitive. The Athletic Research Institute can supply more correct figures on imports, sales and those manufacturing in this country.

As we look at our own picture over a period of years, most of the time this business has represented from thirty to forty percent of our dollar sales volume. From a unit standpoint of view it has represented a much higher figure. From a dollar sales volume picture today it represents about twenty percent of our yearly sales. You can readily see how many different manufacturers would be affected by this industry's loss in the retail field.

There are many component parts that go into a baseball glove, such as leather, laces, oils, greases, felt, eyelets, threads, needles, machines for manufacturing, to name a few, plus the parts which we supply, namely, leather and imitation leather bindings and leather weltings. If other companies supplying the prime manufacturers are so affected as ours, it isn't hard to see where many people would be involved.

Why can't our government give us some form of protection in order that the American way of life might be preserved. If we are going to have to pay higher wages consistently, and higher overhead, higher Social Security, local taxes, federal government taxes, we are constantly pricing ourselves out of the foreign and domestic market, and we, therefore, must have some protection for our domestic market, or these industries will be forced to retire from activity. It is my understanding that this importation of gloves keeps growing larger year by year, and apparently no effort is made to stop it.

I would like to feel that somewhere in this great country we could legitimately reverse our former President Kennedy's saying, "Ask not what your country can do for you, but what you can do for your country." We feel it is now necessary to ask what our country can do for its own citizens who are in dire need of help.

I wish to thank you for reading a lament from a small business man looking for help.

Sincerely yours,

HAROLD F. DAVENPORT.

AMALGAMATED MEAT CUTTERS AND BUTCHER WORKMEN
OF NORTH AMERICA (AFL–CIO),
Washington, D.C.

Hon. RUSSELL B. LONG,
U.S. Senator, Chairman, Committee on Finance,
U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: Enclosed is a statement by our Union's Vice President and Director of the Fur and Leather Department, Abe Feinglass, concerning the need for quotas on imports of leather, leather products and shoes. Our Union strongly believes that such quotas are necessary and in the interest of the workers in these industries and the nation, as a whole.

Since this statement was prepared, suggestions have been made to tie import quota legislation to the social security bill. We strongly support both quotas for leather and also legislation to improve social security, medicare and welfare benefits. But we oppose tying them together since such action would probably harm both measures, especially the social security one. Leather and shoe import legislation is highly meritorious and deserves action by Congress. It need not depend for success on harming a bill to aid the aged, the sick, the fatherless and the poor.

Sincerely yours,

THOMAS J. LLOYD,
International President.
PATRICK E. GORMAN,
International Secretary-Treasurer.

STATEMENT BY ABE FEINGLASS, VICE PRESIDENT AND DIRECTOR OF THE FUR & LEATHER DEPARTMENT, AMALGAMATED MEAT CUTTERS & BUTCHER WORKMEN (AFL–CIO)

My name is Abe Feinglass. I am a Vice President and the Director of the Fur and Leather Department of the Amalgamated Meat Cutters and Butcher Workmen (AFL–CIO).

The Amalgamated Meat Cutters and Butcher Workmen is a labor union with 400,000 members organized in about 500 local unions throughout the United States and Canada. Some 20,000 of these members are employed in the production of leather and leather products. Our other members are employed in various food industries and in the fur industry.

This statement concerns the problems which leather tanning, shoe and leather products workers are facing as a result of sharply increasing imports.

It would be premature, perhaps, to describe the recent steep rise in shoe and leather imports as a tidal wave. But the wave crest *have* been rolling higher and higher up the beach. Thousands of leather jobs have been washed out. Many long established tanneries have been crumbled like sand castles.[1] Continuation of the

[1] Hubschmann in Philadelphia, Eisendrath in Racine, Wisconsin, and International Shoe in Wood River, Ill., have all been recently closed down.

rising curve of leather and shoe imports could bring disastrous consequences to the entire tanning industry and to the men and women dependent upon it for a living.

Leather Tanning Job Loss to Imports

In the first six months of 1967, the leather tanning industry employed a total of 30,300 workers. This is 7,700 less than the average of 38,000 in the years 1957–59. Out of that total of lost jobs, 3,200 were apparently eliminated by automation.[3] The remaining 4,500 were squeezed out by the pressure of mounting leather imports. These included leather as such or leather embodied in shoes or other imported products.

Table IV attached shows a sharp rise in the number of leather industry jobs replaced by imported leather and imported shoes.

This loss rose from a total of 3,230 jobs in 1957–59 to 6,242 in the first six months of 1967. The remaining job loss may be attributed to the accelerating rate of imports of other leather products—purses, gloves and luggage.

Had there been no surge of imports over the past ten years, total leather industry employment would now be running close to 35,000 rather than 30,000.

Shoe Industry Job Losses

In addition to the indirect loss of tanning industry jobs through the impact of rising shoe imports, there has been an even more substantial loss from the same cause in the shoe industry itself. Total employment in that industry dropped from a 1957–59 average of 242,900 to a first half 1967 average of 226,700. This job loss of 16,200 is entirely a reflex to the rise of shoe imports from 22.7 million pairs in the base years to a 1967 annual rate of 77.3 million. (See Table I and II attached.)

If that 54.6 additional million pairs of shoes had been produced in U.S. plants, employment would have been 20,856 higher than the 226,700 it reported for the first half of the year. This would have wiped out all losses and created a modest increase in total job opportunities.

Shoe imports which amounted only to 3.7 per cent of domestic production in 1957–59 reached a 13 per cent level in the first half of 1967. Although the straight-line projection of trends is always dangerous, there is little reason to expect any tapering off in the rate of shoe import increases in the near future. By next year, imported shoes could take 20 per cent of the market.

The Social Consequences

Beyond question, the mounting total of leather and leather product imports have heavily damaged the U.S. leather industry and all who might look to it for employment.

Any national policy which willingly accepts such damage to a labor intensive industry as a healthy trade off for gains to prospering capital intensive industry, whose capacity for penetrating world markets has been dramatically demonstrated, is open to the gravest question. 1. Presumably there is a national interest in preserving the structure of an industry which transforms basic commodities into universally needed end-products. Actual U.S. policies, which seem recently to have stimulated our export of cattlehides and calfskins and our import of shoes and other products processed abroad from such raw materials, obviously conflict with such key national interests. While we lower tariffs on shoes and leather, we tolerate abroad import barriers and other non-tariff restrictions on the acceptance of U.S. shoe and leather exports. All this tends to a distortion of the nation's economy. We move to become the world's supplier of sophisticated transportation and electronic equipment. At the same time, we may be losing the power to keep our own feet in shoes.

2. The concept that somehow the shoe and leather industry deserve whatever lumps they may absorb on world markets because they have been "technologically backward"—that "competition from abroad will force progress"—is a dangerous fallacy.

If the tanning and shoe industries have not been at the forefront of technological progress, certainly it is not because of any lack of competition. Of that there has been, according to industry testimony, an abundance. In fact the complaint

[3] Had there been no gains in labor productivity during this period the tanning industry in the first six months of this year, operating at 88.2% of its 1957–59 level, would have employed 33,500 workers.

is that bitter industry competition has forced "entrapreneurial returns" down so low that little if any earned surplus is available for any long-term research and development programs. If true, this negative trend is being accented heavily by increasing competition from abroad. Everyone has had to scratch for a living in these industries. Little cash has been available for such "frills" as research and development.

Conversely, it would appear that technological development in American industry has been most emphasized in those sectors where concentration is heaviest and competition the *least lively*. Strong correlations appear to exist between the ability to administer prices and that generosity in cash flow which makes possible, though by no means inevitable, impressive research expenditures. There is also a group of major corporations who have benefited from multi-billion dollar research and development projects financed directly or indirectly by the Federal Government.

The shoe and leather industries have had access neither to such private nor public financing for research and development. They are in this the deprived and underprivileged of the industrial community. Increasing competition from abroad will serve only to intensify chaos and backwardness in these industries.

Shoe and Leather Jobs

A national policy which would trade off massive shrinkage in the shoe and leather industry in return for advantages abroad to more sophisticated or massive sectors of U.S. industry will intensify national problems of poverty and unemployment. It would increase demand for skilled and highly trained labor already in short supply and slack off already low demand for the relatively unskilled and untrained. This would preceptibly narrow any margins of hope for the unskilled, the unemployed, and the poor.

In the present labor forces of the shoe and leather industries minority groups from large cities and workers in areas of rural poverty preponderate. For them the sacrifice of present and future job possibilities could mean only proliferation of personal tragedy and social tensions.

It should be manifest that expansion, rather than shrinkage of jobs in such industry, should be an immediate goal of national policy.

The Statistics

Estimates given in this memo on the impact of rising shoe imports correspond neither with the figures provided by government analysts nor with those circulated by spokesmen for the industry.

Both government and industry figures on shoe imports as a percentage of domestic production are clearly and significantly distorted. Government figures take the dollar value of imported shoes as a percentage of dollar value of all U.S. shipments to estimate the percentage of the U.S. market taken by imports. This is a crude distortion. For example, a pair of shoes priced at the point of its foreign production at $2.50 (no charge for transportation, handling, insurance, tariff or turnover tax included) will be sold in an American shoe store in competition with and as a substitute for a U.S. produced shoe whose wholesale price is $5.00. Such price comparisons would count two pairs of shoes abroad as equal to only one pair of equivalent U.S. production.

Actual distortion is greater. In 1965, for example, the average price of a pair of U.S. shoes at the factory was $4.02. In 1965 a total of 87.6 million pairs of foreign shoes were imported at an average price of $1.35 a pair. Government figures, therefore, calculated the import percentage to U.S. shipments at 4.7 per cent. (U.S. shipments were $2,529 million compared with imports valued at $118.5 million.)

Industry estimates distort at the opposite end of the scale. They assume that one pair of imported shoes equals one pair of U.S. produced shoes. For 1965, industry estimates imports at 13.9 per cent of domestic production. (U.S. shipments in 1965 were 629 million pairs compared with imports of 87.6 millions.) The catch to such calculations is palpable. Out of the 87.6 million pairs of shoes we imported in 1965, a total of 47.6 million were so-called "Footwear Having Supported Vinyl Uppers." These were officially valued at 44¢ a pair. Obviously, one pair of such shoes, usable only for brief novelty wear, cannot be equated with a standard pair of leather shoes produced in a U.S. factory at almost ten times the cost. Only by such counting can the industry estimate imports as 18.9 per cent of domestic shipments in 1965, 15 per cent in 1966, and close to 25 per cent in the first half of 1967.

To avoid such distortions, shoe import figures in Table I attached excluded such vinyl shoes from total numbers of pairs imported. This is as precise a basis for comparability between imported and domestic shoes as the data appear to allow. If the exclusion of the tens of millions of cheap vinyl imports may bias the import series downward by a few percentage points, it more than eliminates any implication of bias on the high side through counting possibly inferior foreign shoes as equal to U.S. produced shoes. It establishes that the estimates used of shoe imports are minimum estimates which tend more to underestimate than to overestimate the impact of imported shoes on the domestic market.

The Conclusions

Most of the jobs which the leather and shoe industries provide are the very kind which our nation now needs so desperately to still the urban crisis and to meet rural poverty. These jobs can not simply be lost and forgotten. Every unskilled and semiskilled job which the Administration and Congress permit imports to knock out will have to be made up probably by the creation of a government-provided or government-subsidized job. The present social crisis and tension will not allow the elimination of work and hope of tens of thousands without the sharp escalation of the serious troubles which our nation already faces.

Free trade theoreticians and grant economists may find all sorts of magnificent figures and demonstrate how labor intensive industries, such as shoe and leather, must simply be sacrificed for the benefit of these statistics. But ghetto workers who have lost jobs which they held for 15 or 20 years or rural employees who have found work after being thrown off the farm do not understand or care to understand these statistics. They want and need work which is in their capacity to perform. They seek a better, useful existence—not an uprooted, aimless and hopeless life.

The problem will not go away. The Administration and Congress must come to a decision either now or, under more desperate circumstances, later. Will the Administration and Congress seek to save these industries and their hundreds of thousands of jobs or will the Administration and Congress establish in each community other work for the employees who are thrown out of their jobs?

We would choose to save the jobs. We would suggest that quotas be applied to imports of leather, leather products and shoes. We believe that such action is less expensive to the economy, less disturbing to the community of the areas where leather and shoe plants are now located and much more satisfactory to the workers involved.

TABLE I.—SHOE PRODUCTION, IMPORTS, AND EMPLOYMENT

	U.S. production (million pairs)	Imports [1] (million pairs)	Employment
1967 (6 months annual rate)	593	77.3	226,000
1966	646	55.5	237,200
1965	629	40.0	233,400
1964	613	38.6	230,500
1957–59 average	607	22.7	242,900

[1] Excluding rubber and vinyl type shoes valued at less than 50 cents a pair produced primarily in eastern Asia and Japan.

Source: U.S. Production and Imports, U.S. Department of Commerce; Employment, BLS series for all employees.

TABLE II.—JOBS LOST TO IMPORTS

	Percent imports to U.S. shoe production	Total job loss to imports
1967	13.0	29,471
1966	8.6	20,399
1965	6.4	14,938
1964	6.3	14,521
1957–59	3.7	8,987

TABLE III.—LEATHER PRODUCTION AND IMPORTS

[Dollar amounts in thousands]

	U.S. shipments	U.S. imports	Percent imports to shipments
1967 (6 month annual rate)	[1] $714,457	$70,584	9.9
1966	[1] 806,017	74,996	9.3
1965	720,946	66,998	9 3
1964	658,240	52,664	8.0
1957-59 average	[1] 676,086	37,413	5.5

[1] Dollar volume of shipments in 1967, 1966, and 1957 estimated on basis of Federal Reserve Board index of leather production adjusted by BLS wholesale price index for leather. Other years are shipments as reported by U.S. Department of Commerce survey or census of manufactures.

TABLE IV.—LEATHER INDUSTRY EMPLOYMENT AND JOBS LOST THROUGH LEATHER AND SHOE IMPORTS

	All leather tanning employees	Jobs lost to leather imports	Jobs lost to shoe imports [1]	Total
1967	30,300	3,000	3,242	6,242
1966	31,600	2,940	2,212	5,152
1965	31,600	2,940	1,643	4,503
1964	31,400	2,500	1,156	3,656
1957-59 average	38,000	2,090	1,140	2,230

[1] Based on tanners council estimate that 82 percent of leather is used for shoes.

[Telegram]

NEW YORK, N.Y.

Hon. RUSSELL LONG,
Chairman,
Senate Finance Committee,
U.S. Senate, Washington, D.C.:

This is in connection with the hearing on bill No. S. 2540 presented by Senator Muskie entitled "A bill to provide for orderly trade in footwear."

While we are not in the footwear business this company is actively engaged in the hide and leather business participating to a large extent in the exportation of these materials all over the world with not insignificant impact in foreign exchange earnings for the United States.

It was rather surprising to learn of the attempt to introduce an import quota system for shoes. The United States is the largest shoe producing country in the world in absolute terms and on a per capita basis. Imports of shoes of all kinds represent somewhere around 10 percent of our total consumption. These imports include specialty and noncompetitive footwear as well as promotion for new fashion trends, developments and merchandising. This latter category is in fact a stimulus to the domestic shoe industry in creating a greater overall market for hides, leather and shoes domestically as well as internationally. The dangers are particularly great since the imports represent such a minor part of our total consumption in trade terms we may well gain a dime and lose a dollar.

Import quotas on shoes will certainly have retaliatory impacts that in the long run can only have negative results on the American economy. Being engaged in allied trade to the shoe industry we must earnestly and respectfully urge the committee to adopt a broad view and not restrict international commerce.

Respectfully,

CHILEWICH CORP.

STATEMENT OF THE IMPORTED FOOTWEAR GROUP, AMERICAN IMPORTERS ASSOCIATION, SUBMITTED BY STITT, HEMMENDINGER, AND DANIELS, ATTORNEYS

SUMMARY

Imports of footwear play an extremely valuable role in the U.S. economy by averting the consequences for the consumer of an acute labor shortage in the U.S.

shoe industry. There are no workers to fill the jobs supposedly lost to imports; they are busy in more efficient, higher-paid industries.

Imports of vinyl footwear from Japan are particularly valuable for the U.S. consumer because they meet the needs of poor people for shoes in the $1–2 range that are unavailable from domestic production.

Rubber-soled and waterproof footwear now enjoy unfairly high rates of duty, that were not reduced in the Kennedy Round.

Quotas would put intolerable bureaucratic barriers in the way of a constantly shifting trade in a styled consumer product.

STATEMENT

This statement is submitted in opposition to S. 2540, S. 1446, and other proposals pending before this Committee that would lead to the establishment of quotas on footwear imported into the United States. Members of the Imported Footwear Group are engaged primarily in the footwear trade with the Far East, and are responsible for a large part of the importation of rubber and vinyl footwear. The trade in imported footwear is divided roughly into three parts: leather footwear entering largely from Italy, Spain, and other parts of Europe; footwear with uppers of vinyl (polyvinyl chloride) entering largely from Japan and other sources in the Far East; and waterproof footwear and sneaker-type rubber-soled footwear, which also enters largely from the Far East, but which enjoys vastly greater tariff protection than do the other segments of the trade. As yet, there is no substantial trade in the high quality plastics which are substitutes for leather.

The Trade Press Tells the Story of Labor Shortage

The foregoing conclusions are not economic deductions. In the case of the footwear industry, which has a multitude of different establishments over many states, the facts are well documented by the trade press. Attached hereto are a few of the articles that have appeared in the last two years in the "Footwear News," the "Boot and Shoe Recorder," and the "Wall Street Journal." The following is a brief summary:

On March 22, 1966, the "Wall Street Journal" reported:

"Endicott Johnson Corp. is considering consolidating some of its shoe-manufacturing plans due to acute labor shortage. * * * 'We could use more than 300 people right now, and the truth of the matter is that we can't get them.' "

On May 5, 1966, the Chairman of United States Shoe Corp. said:

"We can sell more shoes than we can make. . . . Labor is the most vulnerable facet of the shoe business. It is a traditionally low-paid industry anyway, and because of heavy industrial growth in some established cities it is difficult to improve on the situation. You have to go to new communities to get the workers you need. At our existing plants we are just not getting them."

On August 18, 1966, the "Footwear News" did a roundup study of employment and headlined its account: "Lack of Skilled Labor Still Plagues Plants." Stories datelined New York, St. Louis, and Boston bear out this headline.

The traditional leather segment of the American footwear industry, represented by the National Footwear Manufacturers Association, has been asking for quota protection against imports for years, during most of which time the American industry has been steadily expanding at the same time that imports have been increasing. Year after year, the industry has been telling of the number of jobs that would exist in the American industry if the imported products were made in the United States. The story has omitted many relevants facts.

Role of Shoe Imports in the American Economy

The fact is that imports of footwear have been playing an essential role and constitute almost a textbook example of the importance of liberal trade policies in a dynamic economy. Despite much sophisticated machinery, the manufacture of shoes continues to involve a lot of handwork, and shoe factory jobs are among the least sought after for reasons of conditions of labor and pay. The result has been an acute shortage of labor for the shoe industry despite the mounting demands of an affluent society. The natural consequence has been an increase in imports, in which many of the established manufacturers have joined by using imports to fill out portions of their lines. This has had three extremely desirable consequences for the American economy: it has freed labor for the more efficient, higher paying industries; it has made products available to the public at prices which they can afford; and it has helped to restrain inflationary trends with respect to a vital consumer product. Without imports, the result would have been higher prices for shoes, perhaps higher wages to attract more labor, fewer shoes purchased, and greater inflation.

On September 29, 1966, the "Footwear News" did another such roundup with dateline stories from Milwaukee, St. Louis, and Boston, emphasizing:

"The shortage of shoe manufacturing labor has brought with it a whole range of unexpected and unforeseen higher costs to producers—costs that are barely visible and that can be calculated only with difficulty. They are adding substantially to manufacturers' costs as they figure prices on their spring lines."

On September 29, 1966, the "Footwear News" had a story from Puerto Rico describing the training of footwear workers there. It was explained that a major reason was that:

". . . in the Northeast United States, the established shoe industry is experiencing a shortage of trained workers."

The same subject was treated by the "Wall Street Journal" on December 27, 1966, in a long article headlined: "Puerto Rico's Labor Surplus Keeps Luring Manufacturers From Worker-Short U.S." The article cites cases of firms that are opening plants in Puerto Rico because they simply cannot find workers in the continental United States.

In its issue of January 1967, the "Boot and Shoe Recorder" devoted more than seven pages to a story entitled: "Labor Shortage Rocks Shoe Industry," saying:

"The shortage of labor is the greatest concern of all facets of the industry from manufacturing plants to material and supply firms to salesmen on the road to retail shoe stores and departments. The skill factor has been watered down while the cost factor has spiraled up and these two forces are pulling footwear apart at the seams."

Many examples are cited in this article of workers who desert for other industries or refuse to go into shoe factories.

On June 1, 1967, another account in the "Footwear News" was headlined: "Acute Labor Pinch Harasses Central Pa. Manufacturers." The story relates that it is impossible for shoe manufacturers, even the few in the area that have unionized plants, to compete in wages and fringe benefits with their stronger rivals such as electronic, steel, aluminum, and machinery makers. Also, young persons, just out of high school and college, are not rushing into factory work as they once did. Even shoe factory jobs that eventually could lead to top executive spots in the various companies are not bringing many applicants.

No doubt there are particular producers bedeviled by labor shortage who feel that the existence of imports makes it harder to raise prices and wages. Even without imports, consumer resistance would limit the ability to raise prices. And when the interests of the American economy on the whole are considerd, it is obvious that the imports play a constructive and necessary role. Without them the whole American people would be much the poorer.

Role of Imports from Japan in the Marketplace

Approximately one-half, according to the Department of Commerce figures, of footwear imports consist of products with vinyl uppers that come mostly from Japan. These are very largely in the women's and misses category and are mostly casual street shoes of various types, some with toes and backs, some sandals, and a wide variety of styles. Most of these have vinyl or rubber soles. The women's and misses shoes in 1967, according to official U.S. statistics, had an average f.o.b. value of 50 cents. Since this is an average, the actual prices varied from around 35 cents to around 70 cents. This means that practically all such shoes sell at retail in the range from $1 to $2.

There is no serviceable comparable footwear available from American production in this price range. These shoes have performed an invaluable service to the American economy in supply essential footwear to people who cannot afford more, and unfortunately, there are still many such people. To a large extent these are sales that would never have taken place if the imports were not in the market. People can get along by putting cardboard in an old pair of shoes if they have to. Obviously, these are not high quality products, but they are good, serviceable, attractive products which have come into existence because of the skill and ingenuity of the Japanese producers in using vinyl as a product for shoe uppers. This is a by-product of the fact that the Japanese have for a long time used vinyl for products in the domestic market, and they have developed a vinyl shoe technology which the U.S. producers have not seen fit to exploit. The American industry is built on the leather shoe, but there are not many countries of the world that can afford leather shoes as can the affluent sectors of the American economy. The underdeveloped portion of the American economy needs the same type of products that are made for the less affluent nations of the world.

Statistically, an impressive picture of a tide of imports can be painted by stressing the quantity of vinyl shoes, but when their role in the market is examined they have virtually to be excluded from a serious examination of areas of competition between imported and domestic products. There are other products often included in statistical aggregates that are altogether non-competitive—for instance, spong rubber sandals (zories), imports of which amounted to 32 million pairs in 1966. They compete with the U.S. barefoot industry.[*]

Rubber-Soled and Waterproof Footwear Need Less, Not More, Protection

The rubber sector of the footwear industry has enjoyed for many years extraordinarily and unjustifiably high rates of duty based upon application 34 years ago of the equalization of cost of production provisions (Section 336 of the Tariff Act), and there is no occasion to consider the adoption of quotas to protect this industry.

The rate of duty on boots and overshoes that enter under Item 700.53 of the Tariff Schedules is 37½ percent; the rate on items which enter under Item 700.52 is 25 percent. These rates were not reduced in the Kennedy Round. and they are highly protective. They were legislated in 1965 after a bitter controversy in a law that did away with ASP valuation for these products while greatly increasing the duty. The result has been a considerable reduction in the volume of imports.

Rubber-soled footwear entered under Item 700.60 is still subject to the American selling price basis for valuation. The rates were not reduced in the Kennedy Round. The ad valorem equivalent on the usual valuation basis varies from product to product, month to month, and source to source because of the vagaries of this peculiar system of valuation. At this time, to the best of our information, the equivalent is approximately 50 percent ad valorem, 5 times the current pre-Kennedy Round rate of duty for men's leather shoes, 2½ times the current rate on ladies' shoes, and 4 times the rate on shoes with vinyl uppers.

It is absurd for the domestic rubber footwear producers to persistently complain about the guidelines for appraisement of rubber footwear on the American selling price that became effective February 1, 1966. No doubt by doing so they hope that attention will be distracted from the unduly high protection they actually enjoy, which stands out like a sore thumb in comparison with the tariff protection enjoyed by practically every other light industry in the United States, including the rest of the footwear industry. If the rubber footwear industry had a case to be reserved from the Kennedy Round. so did many, many other industries. If they had all been reserved, there would have been no Kennedy Round.

The new guidelines did not lead to a reduction of duty, because for three years—during which domestic production expanded greatly—appraisement was suspended and importers anticipated the new guidelines in pricing goods into the U.S. market. The guidelines are consistent with the administration of the ASP duties on chemicals and are clearly right as a matter of law.

The statistics with respect to items that enter under Item 700.60 of the Tariff Schedules, which is generally regarded as the sneaker item, are misleading. The grand total of these are always used by those who are seeking to show a large number of imports of rubber-soled shoes with canvas uppers. Half of these, however, are not actually assessed on the American selling price, because they are not like or similar to American-made products. The exact composition of this non-ASP group is not revealed by any of the official U.S. statistics. A sample was taken last year by the Imported Footwear Group by questionnaires to members to assist the Tariff Commission. It revealed that

[*] The official statistics have also to be used with a certain amount of suspicion. For instance, the Census Bureau reports 1,300,000 pairs of vinyl shoes from Taiwan at a value of $8,525 in early 1966—a unit value of much less than one cent a pair. Not even the clever Chinese can do this.

most of this non-ASP category does not consist of sneaker-type products at all. The majority consist of a miscellany of vinyl products, such as snowboots, sandals, slippers, and casual shoes, that are entered under Item 700.60 only because of some accident of construction which brings them within the technical definitions of this Item.

Moreover, the figures usually used disregard Puerto Rico production, which has been growing. The official figures for earlier years disregard sneakers that entered under other tariff paragraphs because of special construction features.

When all the appropriate adjustments are made, sneaker imports in 1967 found to be about 18 percent of the market, as compared with about 26 percent in 1961 and 1962. This is about 16 percent of U.S. production, not 29 percent as claimed by the U.S. producers.

Although the vogue for sneakers which caused a high demand for both domestic products and imports have leveled off, the production and sales of domestic rubber-soled footwear continue strong and at very high levels compared with five years ago.

Moreover, the American producers of rubber-soled footwear have gone heavily into the machine-made products, that is, sneakers whose sole is produced and molded to the upper in a single operation, with a great saving of labor. These products are extremely competitive today with imports that formerly were strong in the low end of the market. In view of new entrants in the field, there is reason to believe that not all of the machine-made products are fully reported in the official statistics. Since the machine-made sneaker requires heavy capital expenditure and is low in labor costs, the comparative advantage in this product favors the United States, and there are few, if any, imports.

There is no possible case for the imposition of quotas on rubber-soled footwear. The appropriate legislation for this product would abolish the obnoxious American selling price method of valuation and fix a fair rate of duty based upon recent experience, as a base for negotiated reduction, as was done with comparable products in the Kennedy Round.

Evils of Quotas

It is hard to believe that the sponsors of quota legislation have considered deeply their significance for the conduct of the trade of the United States. Such controls are either worldwide, which means an unseemly scramble to get under the line; or they are by countries, which gives to some authority the unenviable task of determining not only a fair historical basis, or what changing conditions call for recognition. The normal working of economic forces is abandoned. The normal changes in trade patterns resulting from economic development and the varying economic trends within all the countries concerned no longer determine trade patterns, and there is substituted a fallible human judgment exercised through pondersou bureaucratic machinery. On both the import side and the export side, someone is going to have to decide to whom the country's quotas are allocated, or else there will be an unseemly and uneconomic scramble to bring in goods before they are wanted in the market. There is no possibility of complete fairness in such allocation. If goods are brought in to meet exigencies of the quota, market forces are again ignored, unnecessary charges for warehousing are incurred, and ability to style to the market is impaired.

This whole process is particularly difficult and odious when consumer items are involved, and even more so when apparel is involved, which is highly subject to whims of fashion. It is impossible for a store buyer or the importer to plan intelligently, and everyone concerned suffers from inability to use imports flexibly as a market resource.

We cannot state too strongly the concern of footwear importers over the prospect of having to conduct their business under controls of this character. Consider the problem of a buyer who goes to the Far East, as is frequently done, and visits four different sources, i.e., Japan, Korea, Taiwan, Hong Kong. Buying is ordinarily done for delivery in the United States four to eight months later. The buyer has already to juggle a myriad of factors: price, style, quality, ability of factory to schedule and deliver. The buyer who had also to take into account the availability of a quota to his producer or to himself would go insane. On the other hand, when the results were in, a few companies who had enjoyed strong positions in the past might be preserved from the rigors of competition and profit unduly.

Consider further, with respect to these products of light industry, that there is a trend away from Japan, whose costs are increasing as it moves to a higher technological level, to other countries of the Far East, particularly Korea and Taiwan—countries which the United States as a matter of policy is happy to see achieving viable economies. The U.S. would like to see many other underdeveloped nations achieve enough exports to permit economic development—the Philippines, Vietnam, Indonesia, Malaya, India, Burma, Pakistan. A historical allocation of quotas would freeze out these nations, while bureaucratic decisions would do a far worse job than natural market forces.

The American people have firmly rejected controls over the U.S. economy except when in time of war they were absolutely unavoidable. We cannot believe that in a moment of blind protectionism the Congress of the United States will depart from traditional free enterprise principles and place such shackles on the import trade.

(S. 289, a bill to protect the domestic economy, to promote the general welfare, and to assist in the national defense by providing for an adequate supply of lead and zinc for consumption in the United States from domestic and foreign sources, and for other purposes, follows:)

LEAD AND ZINC IMPORTS*

90th CONGRESS
1st Session

S. 289

[Report No. 218]

IN THE SENATE OF THE UNITED STATES

January 12, 1967

Mr. Anderson (for himself, Mr. Allott, Mr. Bartlett, Mr. Bennett, Mr. Bible, Mr. Cannon, Mr. Carlson, Mr. Church, Mr. Clark, Mr. Dirksen, Mr. Dominick, Mr. Fannin, Mr. Gruening, Mr. Harris, Mr. Hayden, Mr. Jackson, Mr. Jordan of Idaho, Mr. Long of Missouri, Mr. Magnuson, Mr. Metcalf, Mr. Monroney, Mr. Montoya, Mr. Moss, Mr. Nelson, Mr. Pearson, Mr. Proxmire, Mr. Scott, and Mr. Symington) introduced the following bill; which was read twice and referred to the Committee on Interior and Insular Affairs

May 4, 1967

Reported by Mr. Byrd of West Virginia (for Mr. Anderson), with amendments

May 4, 1967

Referred to the Committee on Finance

[Omit the part struck through and insert the part printed in italic]

A BILL

To protect the domestic economy, to promote the general welfare, and to assist in the national defense by providing for an adequate supply of lead and zinc for consumption in the United States from domestic and foreign sources, and for other purposes.

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

II

*Witnesses testifying on this subject, pp. 470–504.
Communications received by the committee on this subject, pp. 504–526.

That this Act may be cited as the "Lead and Zinc Act of 1967".

TITLE I—LEAD

SEC. 101. As used in this title—

(a) The term "lead" means lead metal, as defined in subsection (b), plus lead ore, as defined in subsection (c).

(b) The term "lead metal" means the dutiable lead content of all unwrought lead and lead waste and scrap which, if imported into the United States, are subject to duty under part 2G of schedule 6, Tariff Schedules of the United States.

(c) The term "lead ore" means the dutiable lead content of lead-bearing ores and other materials which, if imported into the United States, are subject to duty under part 1 of schedule 6, Tariff Schedules of the United States.

(d) The term "imported into the United States" means entered, or withdrawn from warehouse, for consumption within the meaning of the Tariff Classification Act of 1962, as amended.

(e) The term "Tariff Schedules of the United States" means the Tariff Schedules of the United States established pursuant to section 201, Tariff Classification Act of 1962.

(f) The term "ton" means two thousand pounds.

(g) The term "quarter" means a calendar quarter.

(h) The term "quarterly quota for lead" means 80 per centum of the quarterly average of the total general imports as reported by the Bureau of the Census of lead imported as lead metal and lead ore during a quota base period consisting of the ten consecutive quarters prior to the quarter preceding the effective date of such quota as provided in section 103.

SEC. 102. No lead shall be imported into the United States in any quarter after the amount of lead imported into the United States during such quarter equals the import quota for lead for such quarter established under section 103.

SEC. 103. For purposes of section 102—

(a) If for ~~any~~ *a* period of three consecutive calendar months, the stocks of refined soft lead and lead content of antimonial lead owned by the United States primary producers, at their own plants and elsewhere, at the close of each month exceed 250 per centum of the average monthly domestic shipments of refined lead by such producers during the same three-month period, a quarterly quota for lead metal and lead ore shall be applied effective the first day of the quarter following this determination, as provided in section 101 (b).

(b) The import quota for lead ore shall in no event be less than thirty thousand tons.

(c) Except as provided in section 103 (b), 50 per centum of the total quarterly quota for lead established under the provisions of this section shall be allocated to lead ore.

(d) The quarterly quotas for lead ore and for lead metal established under the provisions of this section shall be allocated by the Secretary of the Interior to principal supplying countries in proportion to imports from such countries during the quota base period described in section 101 (h). Specific quotas shall be established for lead ore or lead metal as the case may be, for each country supplying more than 10 per centum of the total such lead ore or lead metal imported during such period and the unallocated balance of the lead ore quota and the lead metal quota shall be assigned to all other countries.

(e) If, while the import quota established under section 103 (a) is in effect, stocks of refined soft lead and lead content of antimonial lead owned by the United States primary producers, at their own plants and elsewhere, at the close of any three consecutive months are less than 100 per centum of average monthly domestic shipments of refined lead by such producers during those same three months, the quarterly quotas established under provisions of this section shall be terminated, effective on the date of such determination by the Secretary of the Interior: *Provided, however*, That, in making a determination of the relationship of primary producers' metal stocks to domestic shipments, the Secretary of the Interior shall consider the effects of any temporary and significant loss of lead production.

TITLE II—ZINC

SEC. 201. As used in this title—

(a) The term "zinc" means zinc metal, as defined in subsection (b), plus zinc ore, as defined in subsection (c).

(b) The term "zinc metal" means the dutiable zinc content of all unwrought zinc (except alloys of zinc and zinc dust) and zinc waste and scrap which, if imported into the United States, are subject to duty under part 2H of schedule 6, Tariff Schedules of the United States.

(c) The term "zinc ore" means the dutiable zinc content of all zinc-bearing ores and other materials which, if imported into the United States, are subject to duty, under part 1 of schedule 6, Tariff Schedules of the United States.

(d) The term "imported into the United States" means entered, or withdrawn from warehouse, for consumption within the meaning of the Tariff Classification Act of 1962, as amended.

(e) The term "Tariff Schedules of the United States" means the Tariff Schedules of the United States established pursuant to section 201, Tariff Classification Act of 1962.

(f) The term "ton" means two thousand pounds.

(g) The term "quarter" means a calendar quarter.

(h) The term "quarterly quota for zinc" means 80 per centum of the quarterly average of the total general imports as reported by the Bureau of the Census of zinc imported as zinc metal and zinc ore during a quota base period consisting of the ten consecutive quarters prior to the quarter preceding the effective date of such quota as provided in section 203.

SEC. 202. No zinc shall be imported into the United States in any quarter after the amount of zinc imported into the United States during such quarter equals the import quota for zinc for such quarter established under section 203.

SEC. 203. For purposes of section 202—

(a) If, for ~~any~~ *a* period of three consecutive calendar months, the stocks of slab zinc owned by the United States primary producers, at their own plants and elsewhere, at the close of each month exceed 175 per centum of the average monthly domestic shipments of slab zinc by such producers during the same three-month period, a quarterly quota for zinc metal and zinc ore shall be applied, effective the first day of the quarter following this determination, as provided in section 201 (b).

(b) The import quota for zinc shall in no event be less than one hundred and thirty thousand tons.

(c) Eighty per centum of the total quarterly zinc import quota established under the provisions of this section shall be allocated to zinc ore.

(d) The quarterly quotas for zinc ore and for zinc metal established under the provisions of this section shall be allocated by the Secretary of the Interior to principal supplying countries in proportion to imports from such countries during the quota base period described in section 201 (h). Specific quotas shall be established for zinc ore or zinc metal, as the case may be, for each country supplying more than 10 per centum of the total such zinc ore or zinc metal imported during such period and the unallocated balance of the zinc ore quota and the zinc metal quota shall be assigned to all other countries.

(e) If while the import quota established under section 203 (a) is in effect, stocks of slab zinc owned by the United States primary producers at their own plants and elsewhere, at the close of any three consecutive months are less than 75 per centum of average monthly domestic shipments of slab zinc by such producers during those same three months, the quarterly quotas established under the provisions of this section shall be terminated, effective on the date of such determination by the Secretary of the Interior: *Provided, however*, That, in making a determination of the relationship of primary producers' slab zinc stocks to domestic shipments, the Secretary of the Interior shall consider the effects of any temporary and significant loss of zinc production.

TITLE III—MANUFACTURED LEAD AND MANUFACTURED ZINC

~~SEC. 301. (a) The Secretary of the Interior shall establish quarterly import quotas for any "manufactured lead article" or "manufactured zinc article" not to exceed 100 per centum of average imports for such articles during the quota base period as provided in sections 101 and 201, where (1) more than 50 per centum of the gross weight of the article is attributable to its lead or zinc content, respectively, and (2) the manufactured lead article or manufactured zinc article is imported in any calendar quarter subsequent to the date that a lead or zinc quota, respectively, becomes effective under provisions of section 103 or 203, in quantities equal to 100 per centum or more of the average quarterly imports during the quota base period as provided in section 101 or 201.~~

~~(b) No manufactured lead article or manufactured zinc article shall be imported into the United States in any quarter after the amount of such manufactured lead article or manufactured zinc article imported into the United States during such quarter equals the quarterly import quotas established under this section.~~

~~(c) Import quotas for a manufactured lead article or manufactured zinc article established under provisions of this~~

~~section shall terminate effective the date of termination of quotas for lead metal and lead ore or zinc metal and zinc ore as provided in section 103(c), 203(c), or 405 of this Act.~~

~~(d) Any quota established in accordance with this section shall become effective the first day of the quarter following the quarter in which the Secretary determines that the conditions set forth in this section are met.~~

SEC. 301. As used in this title—

(a) The term "specified manufactured lead article" means the following items which, if imported into the United States, are subject to duty under the Tariff Schedules of the United States, as indicated:

Litharge (schedule 4, part 9B, item 473.52);

White lead (schedule 4, part 9B, items 473.60 and 473.62);

Plates, sheets, pipe, and tube of lead (schedule 6, part 2G, items 624.10 and 624.50).

(b) The term "specified manufactured zinc article" means the following items which, imported into the United States, are subject to duty under the Tariff Schedules of the United States, as indicated:

Leaded zinc oxide (schedule 4, part 9B, items 473.46 and 473.48);

Zinc oxide (schedule 4, part 9B, items 473.76 and 473.78);

Alloys of zinc (schedule 6, part 2H, item 626.04);

Plates, sheets, and strips of zinc (schedule 6, part 2H, items 626.15 through 626.21);

Zinc wire (schedule 6, part 2H, items 626.30 and 626.31);

Zinc powders and flakes (schedule 6, part 2H, items 626.40 and 626.42).

(c) The term "imported into the United States" means entered, or withdrawn from warehouse, for consumption within the meaning of the Tariff Classification Act of 1962.

SEC. 202. (a) The Secretary of the Interior shall establish quarterly import quotas for any "specified manufactured lead article" or "specified manufactured zinc article" equal to 100 per centum of average imports of such article during the quota base period as provided in sections 101 and 201, where the manufactured lead article or manufactured zinc article is imported in any calendar quarter commencing with the calendar quarter that a lead or zinc quota, respectively, becomes effective under provisions of section 103 or 203, in quantities equal to 110 per centum or more of the average quarterly imports of such article during the quota base period as provided in section 101 or 201.

(b) The Secretary of the Interior may establish quar-

terly import quotas for any other manufactured lead article or manufactured zinc article equal to 100 per centum of average imports for such article during the quota base period as provided in sections 101 and 201, where (1) more than 50 per centum of the gross weight of the article is attributable to its lead or zinc content, respectively, and (2) the manufactured lead article or manufactured zinc article is imported in any calendar quarter subsequent to the date that a lead or zinc quota, respectively, becomes effective under provisions of section 103 or 203, in quantities equal to 110 per centum or more of the average quarterly imports of such article during the quota base period as provided in section 101 or 201.

SEC. 303. (a) No manufactured lead article or manufactured zinc article shall be imported into the United States in any quarter after the amount of such manufactured lead article or manufactured zinc article imported into the United States during such quarter equals the quarterly import quota established for such article under this title.

(b) Import quotas for manufactured lead articles or manufactured zinc articles established under provisions of this title shall terminate effective on the date of termination of quotas for lead metal and lead ore or zinc metal and zinc ore as provided in section 103(e) or 203(e) or 405 of this Act.

(c) Any quota established in accordance with this title

shall become effective, on a prorata basis, the first day of the month following the month in which the Secretary determines that the conditions set forth in this title are met.

TITLE IV—GENERAL PROVISIONS

SEC. 401. The import quotas provided for in titles I, II, and III of this Act shall be determined and published by the Secretary of the Interior. The determination of quarterly import quotas provided for in sections 103 and 203 of this Act shall be made as promptly as possible after the close of the period of three consecutive months as provided in sections 103 (a) and 203 (a) that precede the quarter for which such quotas are determined.

SEC. 402. Whenever merchandise containing lead or zinc is exported and duties are refunded as drawback with respect to such lead and zinc under the provisions of section 1313 of title 19, United States Code, the exporter of the merchandise containing the material on which duty had been paid shall be permitted to enter or withdraw from warehouse for consumption within a period of one year from the date of such exportation, a quantity of lead or zinc equivalent to the quantity as to which duties are refunded and such quantity shall not be subject to the quotas established under titles I and II of this Act.

SEC. 403. The quotas provided in this Act, as determined by the Secretary of the Interior, shall be administered by the Secretary of the Treasury.

SEC. 404. The Secretary of the Interior and the Secretary of the Treasury are authorized to make such rules and regulations as may be necessary to carry out the provisions of this Act.

SEC. 405. ~~Quotas for lead metal and lead ore, or zinc metal and zinc ore, that may be established as provided by the provisions of sections 103 and 203 of this Act shall be in effect for a term of three years unless sooner terminated by the provisions of sections 103(e) and 203(e). Such quotas can only be established during the five-year period which begins on the date of enactment of this Act.~~ *A quota for lead metal and lead ore, or zinc metal and zinc ore, established under section 103 or 203 of this Act shall be in effect for a term of three years unless sooner terminated by the provisions of section 103(e) or 203(e). Such quotas can be established once only during the five-year period which begins on the date of enactment of this Act.*

Senator BENNETT. We now come to the last chapter in today's hearings, lead and zinc.

Senator Anderson of New Mexico was very anxious to be present for this part of the hearing, but word has just come in that he is tied up in a conference on the NASA legislation, and he sent word that that part of the bill in which he is interested has not yet come up, so he will remain there. He may come in before we are through.

Our first witness is Mr. Clark Wilson of my city of Salt Lake, and I would like to make a brief statement before Mr. Wilson begins.

He served for many years as chairman of the Zinc Producers' Committee, with headquarters here in Washington, and has only recently returned to Salt Lake as resident manager of the Anaconda Co.

He appears on behalf of S. 289, the flexible lead-zinc import quota bill, which is the latest in a long series of attempts to find a satisfactory legislative approach to this problem. This bill S. 289 provides for flexible quota legislation with a 55-year term.

During this period, if domestic producers' stocks reach levels considered excessive as defined in the bill's quotas on either lead and zinc ores or metals then become effective for a 5-year period. The quotas would be cancelled if stocks were reduced below normal levels and additional imports were needed.

It would be easy to administer such a bill, and I think it would go into effect only when it is necessary to stabilize the supply consumption ratio at proper levels, so this is very truly a flexible quota proposition.

I support the bill, and I support Clark Wilson.

Mr. Wilson, we will be very happy to hear you.

STATEMENT OF CLARK WILSON, REPRESENTING THE LEAD-ZINC PRODUCERS COMMITTEE

Mr. WILSON. Senator Bennett, I certainly thank you for that kind introduction. You have done such a good job on explaining what we are doing that perhaps I should retire, but I won't.

Senator BENNETT. I think you have got to justify your expense account.

Mr. WILSON. Thank you, sir. I have a few folks in the audience who will appreciate that remark.

I have noted that quite a few witnesses have been pretty well buttressed here by compatriots. While I may appear alone, I can assure you that I do have a good many friends in the audience who are on the same side of this bill as I am, and as vitally interested.

Senator BENNETT. Including me.

Mr. WILSON. Including you; yes, sir, and other good friends in the Senate and the Congress.

In lieu of having the various people here with me, I have three statements, one that is one page that I won't read, one a few pages that I will go through, and an annex that goes into some detail as to a history of our industry economically, legislatively, and also a little more detail on the provisions of the bill.

Senator BENNETT. Those statements which you will not read will be included in the record following the one you do read.

Mr. WILSON. Thank you, sir.

Mr. Chairman and members of the committee, I appear on behalf of the domestic lead-zinc industry to support enactment of S. 289, as amended, a lead-zinc import quota bill. This would provide a short term program of import controls on unmanufactured lead and zinc that would be applied when and if needed.

This need would be determined by the normal relationship of domestic producers refined metal stocks to shipments of these metals to the consumer. The provisions are a refinement and liberalization of previous legislative proposals and are designed to maintain a healthy and necessary segment of our domestic mining and smelting industry, provide adequate metal stocks for the consumer at reasonable market prices and permit imports of lead and zinc from other countries at levels needed to supplement our domestic production.

Mr. Chairman, we have prepared a detailed statement of the many factors that have affected our industry in the past, the current situation and an evaluation of the near future, with comments on the provisions of S. 289, as amended, and the action of this legislation in providing a method to stabilize supply and demand of the two metals. I would like to introduce this as an exhibit for the record and summarize briefly its contents.

The statement includes a discussion of the economic factors affecting the U.S. industry beginning in 1950, due to excessive lead-zinc imports that eventually resulted in a Presidential quota proclamation effective October 1, 1958, to October 1965. This came about following a long series of events including numerous Tariff Commission studies initiated by the industry, with two unanimous findings of import injury with recommendations for corrective controls, and several alternative proposals by the executive departments that were either not long-term planning or were not programs acceptable to the Congress and the industry.

At this point, Senator Bennett, I would like to refer to a statement submitted to this committee yesterday by Secretary Udall, and on page 2 he commented that the Department of the Interior and other agencies which have reported on S. 289 are opposed to its enactment. I might say this was no surprise ot us.

Quoting Secretary Udall:

> Our opposition is based on the belief that adequate remedies are available to the lead and zinc industries as well as to other industries threatened by increased imports resulting from trade concessions and that relief should be taken only after a finding of serious injury or threat of injury.

And on page 6 of this same statement, I quote:

> Since 1951 all trade expansion legislation has provided a means of escape for industries suffering injury from increased imports due to trade concession. The domestic lead and zinc industry availed itself of these provisions.

Well, now, as you know, S. 289 was the subject of discussion in the Senate Interior Committee. It was there amended. They issued a committee report, and they comment on this particular item of escape clause in the report that accompanied their amended bill, and I would like to just mention what they have said. They said:

> The negative attitude of all four reports is argued on one basic theme with varying embellishments—Domestic producers of lead and zinc may avail themselves with remedies provided in the Trade Expansion Act relating to injury

> or the threat of injury from imports on which tariff concessions have been made.' The committee views this "argument" as lacking in validity and in complete disregard of the facts as shown by repeated experience. This committee report has cited the industry experience with time-consuming Tariff Commission studies over the past 17 years. The Commission has provided numerous excellent factual reports and two unanimous findings of injury with recommendation for necessary import controls. We repeat that the only Executive Department action was the delayed and partial acceptance of one recommendation that did not meet the needs of the conditions of the time, being "too little and too late." "Even this avenue of help is now closed under provisions of the Trade Expansion Act of 1962. Import restrictions or adjustment assistance to industries, companies or workers can only come about after the Tariff Commission can make affirmative findings that (1), the imports in question are entering the U.S. in increasing quantities, (2), that the increased imports are due "in major part" to trade agreement concessions, and (3), that such increased imports are "the major factor" in causing the import injury.
>
> We have reported that the law has been tested by twenty cases, one from the zinc industry, all with negative results. We would summarize this departmental solution as having been ineffective in the past and impossible to use at the present time or in the future.

I would hope that we would hear no more from executive departments on this type of relief. It certainly points out that the only relief the industry has is congressional action.

Returning to my statement, the statement discusses the intensive effort of the industry to replace the inflexible provisions of the quota proclamation with flexible quota legislation introduced in the Congress. This would have provided a continuing long-range mineral program for the industry, allowing for changes in domestic production and consumption and changing patterns of production by the exporting nations.

Unfortunately, this industry effort, supported by many Members of the Congress, was not accepted by the executive department. The quotas were canceled and no plan provided to prevent recurrence of the experience of unnecessary imports that have in the past closed many mines with loss of employment, reduced income, and resulted in unprofitable operations.

We discussed the latest available statistical information describing the increase in consumption of both lead and zinc since 1963, with reductions in surplus metal stocks, improvements in market prices and renewed encouragement to the industry for expanding exploration and development so necessary to the future of our mining operations.

We take note of metal shortages in 1964 and 1965, requiring some releases from the U.S. stockpiles, but, present statements from reliable forecasts of expanding mine and smelter production, worldwide, that indicate metal supplies are again building to a surplus position, with a weakening of metal prices all around the world.

Here I might refer to the International Lead-Zinc Study Group. This is an organization of 26 nations that meets annually, to assess the current position and tries to project the situation for the coming year. This means mine production, metal production, metal consumption, and a resulting balance or deficit. Such a meeting was just recently held in Geneva, and while some of the figures are not available for the public, the balance sheet does indicate that in the case of lead in 1968 there is an estimated surplus of 169,000 metric tons, and in the case of zinc an estimated surplus, worldwide, of 227,000 metric tons, so again we can look to this surplus position as being a threat to our market, which of course is the favored market in the world.

The U.S. price of lead dropped 2 cents per pound in 1966 and zinc decreased 1 cent in May and June 1967.

Senator BENNETT. May I interrupt you there. Do you have in your mind the figure representing the percentage which our market bears to the total market of the world?

Mr. WILSON. I would say roughly we consume about a third of the world's lead and zinc.

Senator BENNETT. Thank you.

Mr. WILSON. The forecasts indicate that the rate of increase in production will exceed consumption during the next 3 to 5 years and we can easily be facing a period of excessive, unneeded imports that will once again adversely affect our mining and smelting industry. This is a recent example of the "boom and bust" cycling that has been typical of the economy of our industry. I don't mean to say that we are bust now, but I can see that we have these problems facing us.

If this should happen again—this time we must be ready—with a plan that will take effect before the serious injury occurs. S. 289, as amended, is the plan.

Mr. Chairman, these are just the highlights of the industry business experience and the need for a minerals policy. The detail is available in the accompanying statement.

The general industry situation worldwide is still one of expanding production with the exception of the 3-month U.S. strike that has closed 80 percent of the lead smelter output and 27 percent of the zinc smelter capacity. In spite of the strike that is now affecting imports of lead-zinc ores and concentrates, total lead imports of ore and metal through August 1967 have increased 26 percent over the same period of 1966.

Zinc imports increased 18 percent. Also in spite of the strike, stocks of both metals are at adequate levels compared to shipments to consumers, although the trend of rapidly increasing metal stocks on the United States, particularly for zinc, during the first 6 months of 1967 has halted and slightly reversed.

An offset to the loss of U.S. zinc production is the loss of zinc consumption due to the strike at Ford Motor Co. When these local issues affecting production are settled, the rising tide of imports will continue to be a threat to the economy of the U.S. lead-zinc industry. We can only repeat that now is the time to provide the correct import control plan for the near future.

SUMMARY OF PROVISIONS

1. We still believe that the executive department should prepare a minerals policy and provide controls to encourage domestic production in relation to imports. This is necessary not only for lead and zinc but other metals as well. From what we know of executive department activities in this area, it is logical to assume that some time will elapse before we have such a policy. Action under S. 289 would be limited to one 5-year term but will act as stopgap legislation while Congress considers more permanent legislation and to serve while we wait for an overall minerals policy.

Senator, I would like to emphasize that this is a (1), 5-year-term piece of legislation. We do not want any misconceptions that we are looking for cradle-to-the-grave type of action, (2), in legislation proposed prior to S. 289, the quotas defined would have become effective on the date of enactment of the legislation. They were needed at that time to supplement or modify the quota proclamation. Import requirements increased during the past 2 years and are currently greater than the amounts of the quota proclamation.

We do not require limits on imports at the present time; however, the point has been made that under conditions of future world production and consumption, imports may exceed our needs. S. 289 provides for a three year quota on either lead or zinc, if import limitations are required at any time during the 5-year term of the legislation. Mr. Chairman, I wish to emphasize that the 3-year quota will come into effect only if supply-and-demand conditions require the need for import limitations.

Such a quota must be activated by the market factors of supply and demand. This must be automatic, based on practical and easily available statistical information. S. 289 proposes that quotas will come into effect for either unmanufactured lead or unmanufactured zinc whenever the Secretary of the Interior finds that stocks for a period of 3 consecutive months of either metal, owned by primary producers, exceed a specified percentage of the average shipments of either metal during the same 3-month period. These shipments accurately reflect the consumption of lead or zinc in the United States.

I would like to refer again to the statement by Secretary Udall. He mentioned that "S. 289 requires no finding of injury or threat of injury resulting from increased imports. In fact, there need not even by an increase in imports. The bill only requires that the level of stocks owned by producers shall be in the case of lead two and a half times the monthly shipments and for zinc one and three quarters times the monthly shipments. Thus the control of imports would be determined by industry actions rather than by competitive actions in the marketplace."

Now, the only trouble with his reasoning is that it takes a lot of lead and zinc to trigger this quota, and based upon current shipments of zinc, and if we were to take a price a cent or two lower than it is right now, this would mean an inventory of about $38 million worth of zinc that would be necessary to trigger a quota for zinc. In the case of lead, the figure comes out, using a price somewhat lower than it is now, because we would assume stocks are excess to our consumers needs, we would probably have an investment of $25 million, and knowing the lead-zinc industry leaders as I do, I can assure you that they are not going to go around investing these millions of dollars just to trigger a quota. so I do not agree with Mr. Udall's idea that the industry is going to intentionally trigger quotas.

Senator BENNETT. They would rather sell part of that inventory in the market than buy for the purpose of triggering a quota?

Mr. WILSON. I am sure that when the inventory began to build up they would retract their operations in order to conserve their capital.

3. From the industry experience since mid-1964, operating under the quota proclamation, we recognize that quota can become too

restrictive if consumption increases faster than the supply. Accordingly, S. 289 provides that if during the 3-year term of a lead or a zinc import quota, enacted as indicated above, there should occur a shortage of the metal in the United States again determined by the relative level of producers' metal stocks, the import quota would be canceled.

Here, again, this is a protection for the consumer to be sure that he has the necessary supply.

Senator BENNETT. This is an all-or-nothing change. The quota is not scaled down. It is canceled.

Mr. WILSON. It is canceled, and it cannot come back again under the terms of the legislation.

4. The quotas set by the Secretary of the Interior would be 80 percent of average quarterly imports during a base period of 10 quarters; immediately preceding the quota calculation. This would provide current import information that would fairly serve to establish a quota for a 3-year period. Specific import quotas would be assigned to countries with an import record in excess of 10 percent of imports during a current base period determined at the time a quota plan became effective. Countries with a lower level of imports would participate in an "all other country" quota.

5. Specified lead or zinc manufactured products should be placed under an import quota during the period that a quota is in effect on lead ores and metal or zinc ores and metal, respectively, if imports of the manufactured item increase substantially after the quotas are in effect. Once again, we know from experience during the quota proclamation period, that imports of certain lead-zinc manufactured items were stepped up as an "end-run" around the quota on unmanufactured material. The Secretary of the Interior should be allowed to place limitations on excessive imports of any manufactured lead or manufactured zinc item during a lead or zinc quota period, respectively. S. 289, as amended, permits this action.

6. The provisions of S. 289 recognize the need for imports of lead and zinc, but, it must be remembered that the U.S. industry has and is in the process of investing hundreds of millions of dollars in expanding domestic lead-zinc mine and smelter production. Accordingly, minimum quotas are included to provide the importers a reasonable share of the U.S. market, but the ratio of ore to metal has been changed from the old quota proclamation to conform to U.S. potential production of these items.

In the assignment of quotas to importers, S. 289 recognizes the changes in trade patterns in recent years in the various countries. In the assignment of minimum quotas S. 289, despite the potential of our own domestic industry, recognizes that our domestic production may be limited by economics if supply and demand are to be equalized during a quota period.

7. Manufacturers of lead-zinc products for export using foreign metal during the proclamation period, were required to enter this metal under the quota from the country of origin, and, in so doing became less competitive in export markets against foreign manufacturers who bought metal at the foreign prices. Unlike the quota proclamation

provisions, S. 289 will permit such manufacturers to use imported material, obtain a refund of duties on this metal, and this metal will not be charged to the quota. This means a United States manufacturer selling in the foreign market may obtain his lead and zinc at the foreign price, consistent with the market in which he is selling and accordingly his business practice will not be disturbed by enactment of S. 289.

Mr. Chairman, this plan is much simpler to implement than previous legislative proposals. It is fair to the producer, consumer and importer alike and would only be in effect when necessary to stabilize the supply-consumption ratio at proper levels. We urge that you and your committee approve S. 289, as amended.

(The prepared statements accompanying Mr. Wilson's oral statement follow:)

Summary of Mr. Clark L. Wilson's Oral Statement, Recommending the Enactment of S. 289

For years the domestic lead-zinc mining and smelting industry has been subjected to recurring cycles of an over supply of imported metal, exceeding our needs, that have adversely affected United States metal prices, closed mines, reduced employment, and curtailed the exploration and development required to maintain ore reserves. Since 1950, the industry has tried all possible routes for relief from this unfavorable economic situation by proposing plans that would limit imports to quantities required to supplement our domestic production and adequately service our customers' needs. The industry effort has included twelve actions before the Tariff Commission, with findings of import injury, and a series of legislative proposals that would provide tariff or quota import controls. With the exception of a Presidential Quota Proclamation, there has been no acceptance by the Executive Department of any of these proposals, nor have they offered any constructive alternatives. Assistance to the industry must come from the Congress.

S. 289, as amended, will provide for interim, short term import quota controls for either lead or zinc, if and when needed, pending formulation and initiation of a long range minerals plan. S. 289 should be enacted now to provide the necessary standby controls that can be activated immediately as a cycle of metal surplus, due to excessive imports, begins to build.

S. 289 is actively supported by the majority of the United States lead-zinc mining and smelting industry.

Exhibit I

Supplemental Statement of Clark L. Wilson

Since 1959 there have been six plans for control of lead-zinc imports introduced as legislation in the United States Senate. These are summarized in Annex I of this statement. These plans have varied in the type of control proposed and have been progressively liberalized or have become less restrictive as the general business conditions of the industry, worldwide, have improved. This is particularly true of S. 289, as amended.

The differences in these legislative proposals reflect improvements in domestic and foreign consumption, production and the market price of both metals that has occurred, particularly since 1963. However, there is a continuing need for import quota legislation that emphasizes once again the lack of an overall minerals policy to encourage maintenance of a necessary segment of our lead-zinc mining and smelting industry and reemphasizes the absence of any constructive proposal for such a minerals policy from the Executive Department.

Before discussing the provisions of S. 289, I would like to (1) review the several factors leading up to the issuance of the Presidential Lead-Zinc Import Quota Proclamation in 1958, (2) the efforts of the Congress and the industry to substitute legislation for the Proclamation that would provide effective and reasonable import regulations, (3) the activity in connection with cancellation of the Proclamation, and (4) a survey and forecast of economic conditions, current and future. These are the basis for our continuing request that an effective domestic minerals policy be proposed and adopted by the Executive Department. Lacking that, S. 289 must be enacted as an interim measure.

FACTORS PRECEDING QUOTA PROCLAMATION

The Quota Proclamation was an Executive Department temporary action that was taken in lieu of a series of industry proposals for a long-range minerals policy designed to stabilize imports at levels required to supplement domestic lead-zinc production. A brief review of these efforts provides the necessary background for understanding the quota provisions of previous legislative proposals and the liberalized form proposed in S. 289.

1. Metal prices were at or above present levels following World War II, but dropped to uneconomic levels in early 1950. At that time, the lead industry filed an escape clause action with the Tariff Commission requesting that the 1939 duty reduction of 50% on lead imports be canceled and the statutory rates of 1930 be re-established. This application coincided with the cancellation of a Mexican Trade Treaty, containing the escape clause provision. Following abrogation of the Treaty, 1930 duty rates on lead were restored.

2. Five months later, June 1951, tariffs on both lead and zinc were reduced 50% and 60%, respectively, at the Torquay trade negotiations and have remained at these levels.

3. The Korean War changed the economic situation but on a short term basis. As market prices dropped following Korea, the lead-zinc industry filed its first escape clause action under provisions of Section 7 of the Trade Agreements Extension Act of 1951. On May 21, 1954, the Commission made a *unanimous* finding that serious injury was resulting from excessive imports and recommended the maximum permissable increase in duties.

4. These recommendations were not accepted by the President, who termed the duty rates proposed as insufficient to "reopen closed mines". In May 1954, he instituted increased defense stockpile purchases and subsequently initiated barter.

5. Bartering in lead and zinc was stopped in early 1957 and defense purchases ceased in mid-1958. Prices for both metals decreased 3¢ per pound in 1957.

6. The President had stated that if stockpile action in lieu of accepting the Tariff Commission's proposal did not accomplish the objectives he sought, he would be prepared "to consider even more far-reaching measures". In June, 1957 the Executive Department proposed legislation for suspension of duties and substitution of excise taxes whenever the market for the two metals was below "peril point" levels. Following a hearing on this legislation in the House of Representatives, the President was advised by the Chairman of the Ways and Means Committee that Congressional action was not appropriate since the President had authority to act under provisions of the escape clause and National Security amendment.

7. The industry filed a second escape clause action with the Tariff Commission in September 1957 requesting increased duties and import quotas. In April 1958, the Commission again *unanimously* found serious injury from imports. In a "split-finding" the Commission recommended increased duties and a quota limitation based on *50%* of imports during the period 1953 and 1957.

8. At the conclusion of a 60 day period following the Tariff Commission's finding, the President announced he was "suspending consideration" pending action by the Congress on a proposed "minerals stabilization plan" submitted by the Executive Department and introduced in the Senate as S. 4036. This legislation passed the Senate but failed to pass in the House as Congress adjourned in August 1958.

9. The President was faced with a final decision and issued Proclamation No. 3257, September 22, 1958, establishing absolute quota restrictions on imports for consumption of unmanufactured lead and zinc, effective October 1, 1958. However, the quota amounts were set at 80%, rather than the recommended 50%, of the average annual commercial imports for the base period, much more generous to the importer than recommended by the Tariff Commission. There was no change in basic tariff rates and no provision for quota control of manufactured items.

By the time the President took this action, the damage was done. The quotas were too little and too late. We were flooded with unneeded imports in 1957 and early 1958. Producers' stocks were at all time highs and market prices were at low, uneconomic levels. You will recall that domestic mines closed, employment and production dropped. The quotas did not equate metal supply with demand. Lacking the natural market factor of greatly increased metal consumption, the industry had one alternative or source of assistance—Congressional action.

LEGISLATIVE PROPOSALS

The Congress and the industry have worked diligently to propose legislation that would effectively consider the interests of the lead-zinc consumer, the producer, the importer and also present a plan acceptable to the Executive Department. With these several factors to consider, the legislative proposals over the past several years have been altered to meet the various interests and the changing conditions. A resumé of these proposals is attached as Annex I. The changes indicated in this series of proposals have been made to meet the changing requirements for import controls as the economics of the industry changed here and abroad.

At all times the basic premise of the legislation proposed has remained as follows:

1. It is essential to the economy and security of our nation to maintain a necessary segment of the domestic lead-zinc mining and smelting industry. This implies in addition to domestic production, the incentive to explore and develop new mineral deposits.
2. Adequate supplies of both metals must be available to our domestic consumers and at market prices attractive to the present and the expanding future use of lead and zinc.
3. We recognize that imports are required to supplement the domestic ore and metal supply. The principle of a minimum quota provides that a share of our markets will be allocated to the nations exporting lead and zinc.

Earlier in this statement, I referred to improvements in the state of the industry. Since 1963, domestic consumption of lead and zinc has increased 12 and 27 percent, respectively. There has been a similar increase in foreign consumption. This gradual increase in consumption brought about a similar decrease in domestic producers' metal stocks. As stocks approached normal levels, market prices strengthened providing profitable operations and encouraged exploration for and development of new sources of supply.

On several occasions, before Congressional Committees, we have commented that a mine is not a spigot that can be turned on and off at will as supplies are required. The truth of this statement has been proven since 1963. By mid-1964, demand was exceeding the supply. Mines that had been closed were re-opening and interest was renewed in finding new orebodies, but this process was too slow to meet immediate requirements. In addition, some countries reduced their imports below quota levels as their own consumption requirements increased. Other countries with supplies available were limited to a maximum import tonnage by the absolute quota system. A combination of the necessary "lead-time" to activate domestic mining and smelting operations and the limitations of an inflexible, absolute quota proclamation, produced a metal shortage for both lead and zinc in the United States.

STOCKPILE SALES

Immediate action was required to increase metal supplies. In mid-1964, the domestic lead-zinc producers joined with the consumers in sponsoring legislation for release of 50,000 short tons of lead and 75,000 short tons of zinc from the National Stockpile. These quantities were easily assimilated in our expanding markets. A second release of 150,000 short tons of lead and 150,000 short tons of zinc was authorized in April 1965. A third zinc release of 200,000 short tons was authorized in November 1965; however, at this time the General Services Administration, as the representative of the Executive Department, was advised by the domestic producers that the domestic and world supply for zinc metal was improving and urged caution in authorizing stockpile releases that might cause market disruption.

I repeat that stockpile sales were a necessary part of the domestic metal supply in 1964 and 1965, as rising consumption moved ahead of the "lead-time" required to get new production on stream. The need for stockpile sales changed and decreased rapidly in 1966. For all practical purposes, commercial stockpile sales should disappear in 1967. The exception in 1966 was the purchase of lead to supplement production lost in Missouri smelter expansion, now completed.

SUMMARY OF STOCKPILE SALES

[In short tons]

	1964	1965	1966	1967 (January through September)	Balance remaining authorized for sale, as of Oct. 1, 1967
Lead	50,000	35,057	73,208	7,277	34,458
Zinc	75,000	218,727	42,165	13,382	75,716

During the year, pressure mounted on the General Services Administration to sell "surplus" stockpile materials as a means of providing additional revenue for balancing the federal budget. In an effort to expedite lead-zinc sales, the GSA proposed that all remaining material authorized for disposal be placed for sale as a shelf item. This was initiated in February as sales during a one-week period each month and later placed on open account. In mid-year the GSA began a series of conferences to urge consideration of a long-range plan for sale of substantial quantities of stockpile lead and zinc. This would require Congressional authorization.

GSA was informed that the statistical position of the industry in the United States and throughout the Free World had changed to the point where additional sales will disrupt normal channels of supply.

REVIEW OF ECONOMIC SITUATION

I would like to move back again to the changing economic conditions in 1964 and discuss the events leading to cancellation of the Presidential Quota Proclamation.

Section 351(d) of the Trade Expansion Act of 1962 requires an annual review of any industry operating under import restrictions pursuant to action authorized by an escape clause finding of the Trade Agreements Extension Act of 1951. This type of action was the basis for the lead-zinc import quota plan. A report under this authorization was sent to the President on October 1, 1963 and referred to the Office of the Special Representative for Trade Negotiations (called the Herter Group). The Trade Expansion Act provides further that the President may ask for Tariff Commission advice of probable economic effects to an industry by the reduction or termination of an import restriction. Apparently, in view of improving conditions within the industry the Herter Group recommended a full scale review of our industry. The President ordered such a hearing in March 1964. This was held in June 1964, and the report issued in June 1965. The Commission reported to the President that termination of quotas on unmanufactured lead and zinc "would not likely have a detrimental effect on domestic lead and zinc producers unless world demand for these metals should subside substantially in relation to world supplies".

The report to the President was referred to the Herter Group for study and recommendations. This study was made through an inter-agency committee, principally representatives from Departments of Interior (Chairman), Commerce, State, Labor and Treasury. Representatives of our Committee conferred with all these Departments and the Counsel to the President stating our position on this report as:

1. No precipitous action should be taken to change the present quota system until the effect of stockpile releases and the effects of the worldwide build-up of production, on domestic and world markets could be evaluated.

2. The logical adjustment to solve inequities of the absolute quo' . proclamation was substitution of provisions of the flexible quota legislat.on, S. 264. Friends of the industry in Congress agreed with this position and so advised the President.

The reasoning was logical and valid; but effective October 22, 1965 the President terminated the Quota Proclamation on entry of lead and zinc ores and concentrates and 30 days later on the entry of lead and zinc metal.

The President terminated the quota with no provision for a continuing lead-zinc minerals policy. He did refer the industry to the Tariff Commission for any needed future relief and urged the Commission to expedite its procedures and proceedings. This avenue of "help" has been thoroughly explored in 20 cases, including one from the lead-zinc industry, all with negative results. The provisions of the Trade Expansion Act of 1962 eliminate any practical possibility of the Commission being able to come up with a finding of injury to the industry due to excessive imports.

In the discussion of releases from the stockpile, reference was made to improvements in lead-zinc consumption in the United States and around the world. The final figures for 1966 show that current economic conditions for both lead and zinc, here and abroad, were good.

The domestic lead price held constant through 1965 at 16¢ per pound, f.o.b. New York. This was reduced to 15¢ on May 5, 1966 and again to 14¢ on October 10, 1966, closing the year at that level. Both price reductions were made to "restore the world balance" in pricing the metal, reflecting the decrease in quotes on the London Metal Exchange. 1966 domestic consumption set a new record. The additional metal supply came from increased mine production (six percent), an increase in imports of lead ore (eighteen percent) and lead metal (thirty-one percent) and stockpile sales of 73,000 short tons (not all delivered in 1966). These offset a temporary reduction in smelter production. Producers' and consumers' metal stocks did not show much change during the year.

The domestic price for zinc during 1966 remained at 14.5¢ per pound, f.o.b. East St. Louis but dropped 1¢ per pound during May and June of 1967.

The producers' price outside the United States, 13.75¢ (110£) per pound at the beginning of the year, was reduced to 12.75¢ (102£) per pound in March and to 12.25¢ (98£) in June. The London Metal Exchange responded to these changes, from a high of 17.5¢ in July 1964. As in lead, domestic zinc consumption set a new annual record in 1966. Zinc production in 1966 was affected by mine strikes in Tennessee, a smelter strike in Illinois, a new zinc mine placed in operation in the State of Washington and an electrolytic refinery reopened in Montana in the latter part of the year.

Slab zinc production was 3% above 1965. General imports were entered at substantially increased rates, 22 percent for ores and a startling 82 percent for metal. Stockpile sales totaled 42,000 short tons, compared to 219,000 short tons in 1965. Mine production in 1966 was six percent under 1965, due to strikes, but will probably increase well above this figure in 1967. Consumers' stocks were fairly stable during the year, but producers' stocks have now increased from 40,000 short tons in January 1966 to 133,000 short tons on September 30, 1967. This is equal to 150% of one month's shipments, the normal minimum stock levels.

We would hope that the present economic situation (assuming settlement of the current strikes) could be extended, but such a projection will be affected by announced expansion of the mining and smelting industry around the world during the next three years. Also with the decline in automobile production in the United States, zinc stocks have increased, as indicated before and adds urgency to this testimony.

In previous statements before Congressional Committees, we have discussed the activities of the International Lead-Zince Study Group. The principal contribution of this activity continues to be the accumulation of statistical information on mine and smelter production and consumption for a three-year period. The last session, held in November 1966, covered 1965, 1966 and 1967 estimates. Each year a world balance sheet is prepared for metal production and consumption, including net trade with centrally planned economies and government stockpile sales. For lead it appeared that there would be a deficit of supply of 13,000 metric tons in 1966, and a surplus of 45,000 metric tons in 1967. For zinc there was an indicated surplus in 1966 of 38,000 metric tons and 123,000 mertic tons in 1967.

The 1966 and 1967 estimates of zinc mine and metal production took into account some cutbacks announced by producers outside the United States a few weeks prior to the November meeting.

The lead and zinc world surplus balance forecast in 1967 was without any sales that might be made from the United States stockpile.

EXPANDING MINE AND SMELTER PRODUCTION

Each year a survey is prepared of the announced expansion of mine and smelter capacity by country. These figures were published in the January 1967 *Engineering and Mining Journal* and are reproduced for this statement as Tables

I, II, and III. Lead and zinc mine capacity are both estimated to increase 19% to 20% by 1969, compared to 1966. The smelting capacity expansion is estimated at 14% to 15%.

The problems of projecting consumption are so nebulous that the Study Group is trying to do this on individual items, but no overall figure is available. Based on trends, the increased capacity given above is at a greater rate than the increase in consumption for the past three years. Consumption depends on the overall economy of all countries. We have noted softening in European demand for lead and zinc caused by industrial recession in both the United Kingdom and Germany. This, in turn, is reflected in increased imports to the United States.

I have previously noted that our consumption is being affected by reduced automobile production. I do not wish to be a pessimist in times of prosperity, but our industry has been through these cycles of feast and famine enough times to be looking realistically to the future.

We can easily be facing a period of excessive, unneeded imports that will once again adversely affect our mining and smelting industry.

If this should happend—*this time we must be ready*—with a plan that will take effect before the serious injury occurs. S. 289 is the plan.

SUMMARY OF PROVISIONS

1. We still believe that the Executive Department should prepare a minerals policy and provide controls to encourage domestic production in relation to imports. This is necessary not only for lead and zinc but other metals as well. From what we know of Executive Department activities in this area, it is logical to assume that some time will elapse before we have such a policy. I have previously commented on changes that have been proposed in legislation as the supply demand relationship of lead and zinc recovered from depression levels. In light of these changes, it is quite possible that further adjustment may be needed as production-consumption patterns change around the world. S. 289 will act as "stop-gap" legislation while Congress considers more permanent legislation and to serve while we wait for an overall minerals policy.

2. In legislation proposed prior to S. 564, as amended last July, the quotas defined would have become effective on the date of enactment of the legislation. They were needed at that time to supplement or modify the Quota Proclamation. We have stated previously that import requirements increased during the past two years and are currently greater than the amounts of the Quota Proclamation. We do not require limits on imports at the present time; however, the point has been made that under conditions of future world production and consumption, imports may exceed our needs. S. 289 provides for a three year quota on either lead or zinc, if import limitations are required at any time during the five year term of the legislation. I wish to emphasize once again that the three year quota will come into effect *only* if supply and demand conditions require the need for import limitations.

Such a quota must be activated by the market factors of supply and demand. This must be automatic, based on practical and easily available statistical information. S. 289 proposes that quotas will come into effect for either unmanufactured lead or unmanufactured zinc whenever the Secretary of the Interior finds that stocks for a period of three consecutive months of either metal, owned by primary producers, exceed a specified percentage of the average shipments of either metal during the same three month period. These shipments accurately reflect the consumption of lead or zinc in the United States. The "trigger percentage" for lead is 250% and for zinc is 175%. The percentage figures must be different as primary producers' lead stock figures do not include the substantial production of secondary lead that has been relatively constant and substantial in comparison to the primary production. These percentages have been determined from past experience as being the levels above which market prices will weaken and incentive for maintenance of the industry will decline. These percentages or "triggers" are high, but they should stabilize the United States market at levels that will help the domestic industry. Such a stabilized condition will likewise be of benefit to foreign producers because of the United States' dependency on substantial imports of lead and zinc.

3. From the industry experience since mid-1964, operating under the Quota Proclamation, we recognize that quotas can be become too restrictive if con-

sumption increases faster than the supply. Accordingly, S. 289 provides that if during the three year term of a lead or a zinc import quota, enacted as indicated above, there should occur a shortage of the metal in the United States, again determined by the relative level of producers' metal stocks, the import quota would be canceled. The percentage or "trigger figure" for quota cancellation for lead is 100% of average metal shipments during a three month period and for zinc 75%. Here again, past experience, and this during the last two years, has indicated that this ratio of metal stocks to metal shipments will maintain adequate supplies for the consumer. If these "one-shot" quotas are canceled, new legislation will be required to authorize further import controls.

4. The quotas set by the Secretary of the Interior would be 80% of average quarterly imports during a base period of 10 quarters; immediately preceding the quota calculation. This would provide current import information that would fairly serve to establish a quota for a three year period. Specific import quotas would be assigned to countries with an import record in excess of 10% of imports during a current base period determined at the time a quota plan became effective. Countries with a lower level of imports would participate in an "all other country" quota.

5. Specified lead or zinc manufactured products should be placed under an import quota during the period that a quota is in effect on lead ores and metal or zinc ores and metal, respectively, if imports of the manufactured item increases substantially after the quotas are in effect. Once again, we know from experience during the Quota Proclamation period, that imports of certain lead-zinc manufactured items were stepped up as an "end-run" around the quota on unmanufactured material. The Secretary of the Interior should be allowed to place limitations on excessive imports of any manufactured lead or manufactured zinc items during a lead or zinc quota period, respectively. These provisions are included in Title III of S. 289, as amended.

6. The provisions of S. 289 recognize the need for imports of lead and zinc, but, it must be remembered that the United States industry has and is in the process of investing hundreds of millions of dollars in expanding domestic lead-zinc mine and smelter production.

Accordingly, minimum quotas are included to provide the importers a reasonable share of the United States market, but the ratio of ore to metal has been changed from the old Quota Proclamation to conform to United States potential production of these items.

When have new mine production coming on stream in the United States by 1969—particularly so for lead. New smelters are being constructed to treat this material. Some custom smelters, particularly in western states, will require imported material to augment domestic mine production. Accordingly, S. 289 specifies a minimum quota for lead ore of 30,000 short tons per quarter. If the Secretary of Interior is called upon to determine a quota for lead, he must guarantee 30,000 short tons for lead ore. If the quota as calculated, exceeds 60,000 short tons, it will be divided equally between ore and metal. A sample calculation, using 1966 as a base since this represents actual import experience not affected by the Quota Proclamation, indicates the quota would have been at the Proclamation level with a greater allocation to ore and lesser to metal than in the old Proclamation.

The zinc minimum quota is left at the Quota Proclamation level of 130,000 short tons per quarter, as domestic zinc production expansion is less than that for lead. As in lead, the ratio of ore to metal has been increased but to a lesser extent. The sample calculation here, similar to that for lead, indicates a 23% increase over the Proclamation level, again with ore increased, and metal slightly decreased from Proclamation amounts.

In the assignment of quotas to importers, S. 289 recognizes the changes in trade patterns in recent years in the various countries. In the assignment of minimum quotas S. 289, despite the potential of our own domestic industry, recognizes that our domestic production may be limited by economics if supply and demand are to be equalized during a quota period.

7. One last provision of note. Manufacturers of lead-zinc products for export using foreign metal during the Proclamation period, were required to enter this metal under the quota from the country of origin, and, in so doing became less competitive in export markets against foreign manufacturers who bought

metal at the foreign prices. Unlike the Quota Proclamation provisions, S. 289 will permit such manufacturers to use material from a bonded warehouse, obtain a refund of duties on this metal, and this metal will not be charged to the quota. This means a United States manufacturer selling in the foreign market may obtain his lead and zinc at the foreign price, consistent with the market in which he is selling and accordingly his business practice will not be disturbed by enactment of S. 289.

This plan is much simpler to implement than previous legislative proposals. It is fair to the producer, consumer and importer alike and would only be in effect when necessary to stabilize the supply-consumption ratio at proper levels. We urge that you and your Committee approve S. 289, as amended.

TABLE I.—CHANGES EXPECTED IN LEAD MINE CAPACITY[1]

Country	1966 estimated production (metric tons Pb)[2]	Addition to capacity scheduled for 1966-69 (metric tpy Pb)[3]
Americas:		
U.S.	312,000	176,000
Canada	299,000	33,000
Peru	163,000	22,000
Mexico	171,000	18,000
Argentina	28,000	11,000
Europe:		
France	26,000	10,000
Ireland	35,000	19,000
Spain	62,000	10,000
Oceania and Asia:		
Australia	369,000	72,000
Japan	64,000	17,000
Republic of Korea	11,000	15,000
Iran	16,000	8,000
Total planned new capacity		[4] 411,000

[1] As reported in the January 1967 "Engineering and Mining Journal."

[2] 1966 total, 2,121,000.

[3] New capacity cannot be added to 1966 production to arrive at aggregate industry capacity. New capacity estimates do not consider market influences, availability of finance, delays, or shutdown of existing mines.

[4] 19 percent of 1966 production.

TABLE II.—CHANGES EXPECTED IN ZINC MINE CAPACITY[1]

Country	1966 estimated production (metric tons Zn)[2]	Addition to capacity scheduled for 1966-69 (metric tpy Zn)[3]
Americas:		
U.S.	585,000	95,000
Canada	963,000	230,000
Peru	263,000	37,000
Mexico	241,000	14,000
Argentina	28,000	11,000
Europe:		
West Germany	121,000	14,000
Italy	118,000	32,000
Sweden	78,000	12,000
Yugoslavia	92,000	30,000
Spain	60,000	30,000
France	23,000	8,000
Ireland	19,000	84,000
Oceania and Asia:		
Australia	352,000	77,000
Japan	254,000	81,000
Iran	16,000	7,000
Republic of Korea	11,000	7,000
India	5,000	5,000
Total planned new capacity		[4] 774,000

[1] As reported in the January 1967 "Engineering and Mining Journal."

[2] 1966 total—3,651,000.

[3] New capacity cannot be added to 1966 production to arrive at aggregate industry capacity. New capacity estimates do not consider market influences, availability of finance, delays, or shutdown of existing mines.

[4] 20 percent of 1966 production.

TABLE III.—CHANGES EXPECTED IN LEAD AND ZINC SMELTER CAPACITY[1]

	1966 lead production[2] (metric tons)	Addition to lead smelting capacity by 1969 (metric tons per year)	1966 zinc smelter production[3] (metric tons)	Addition to zinc smelting capacity by 1969 (metric tons per year)
United States	738,000	250,000	1,002,000	40,000
France	139,000	25,000	196,000	25,000
United Kingdom	183,000	15,000	107,000	8,000
Poland		20,000		30,000
Yugoslavia	103,000	35,000	48,000	40,000
West Germany			206,000	80,000
Italy			77,000	30,000
Norway			52,000	10,000
Spain			50,000	30,000
Japan	122,000	27,000	442,000	100,000
Australia			199,000	30,000
India			2,000	38,000
Repubilc of Korea			2,000	3,000
South Africa				27,000
Total		[4] 372,000		[5] 491,000

[1] As reported in the January 1967 Engineering and Mining Journal.

[2] 1966 lead smelter production, 2,671,000.

[3] 1966 zinc smelter production, 3,288,000.

[4] 14 percent of 1966 production.

[5] 15 percent of 1966 production.

ANNEX I

RÉSUMÉ OF PREVIOUS LEGISLATION PROPOSED FOR STABILIZATION LEAD-ZINC INDUSTRY

1. *S. 2169*, introduced in June 1959, proposed a 4¢ import tax on metal whenever market prices dropped below prescribed "peril point" levels. (15½ for lead and 13½ for zinc).

2. *S. 1747*, introduced in January 1961, would have provided a flexible tax, i.e., a basic 2¢ tax would be assessed on all imports of lead and zinc metal, and an additional 2¢ would be applied when market prices dropped below 18½¢ per pound. This would be removed above 14½¢ per pound.

3. *S. 1534*, the subject of your Committee hearing in August 1963, was introduced in May 1963 and proposed a flexible quota plan. The importer was guaranteed a minimum quota, somewhat below the Proclamation level, when the price for each metal was below 13.5¢ per pound. A flexible quota, the difference between supply and demand, would be established when metal prices exceeded this level. The ratio of imported ores to metal was increased compared to the Proclamation percentage to assist domestic custom smelters, and global quotas were proposed to accommodate changes in the pattern of world production of these two metals. S. 1534 was the first effort to make adjustments in the inflexible provisions of the Quota Proclamation.

4. *S. 1534* was reported to the Senate by Senator Anderson on December 10, 1963 with an *amendment* in the nature of a substitute. The provisions for the minimum import quota were liberalized. The flexible quota, referred to above was to be "triggered" by the ratio of producers' metal stocks to their shipments, a direct measure of domestic consumption. This eliminated the use of a market price as a trigger—an item criticized by the Department of Interior at your Committee hearing. Assignment of quotas was by country but with provisions for adjustments, allowing others to participate, if these assigned quotas were not used.

5. *S. 564*, introduced January 1965, provided further liberalization of minimum quotas up to the level provided in the Quota Proclamation. The calculation of a flexible quota included both long and short term factors of consumption to eliminate sharp variations in the calculation. Supplemental quotas were provided in recognition of increasing domestic and world consumption.

6. *S. 564 amended* by a substitute bill in July 1966, was essentially the terms of S. 289, the subject of discussion in this hearing.

Senator BENNETT. Thank you, Mr. Wilson, very much. I needed no conversion, but I think this is an excellent statement, and I will do the best I can to see that the absent members of the committee have it brought to their attention. It is good to see you in Washington.

Mr. WILSON. Thank you very much, Senator.

Senator BENNETT. Now we have Mr. David Laine, secretary of the American Die Casting Institute. He will be followed by Mr. Aubrey Fletcher, the executive vice president, C. Tennant, Sons & Co. of New York, who will be our last witness.

Mr. Laine, will you identify yourself and proceed with your testimony.

STATEMENT OF DAVID LAINE, SECRETARY OF THE AMERICAN DIE CASTING INSTITUTE, NEW YORK, N.Y.

Mr. LAINE. My name is David Laine, I am secretary of the American Die Casting Institute, located in New York City—the trade association of the custom diecasting industry. I should like to thank the committee for this opportunity to express the opinion of the principal slab zinc-consuming industry on the subject of import quotas.

To conserve the time of the committee, I have the testimony that I gave earlier before the Interior C mmittee as part of this talk, and I will go even further in trying to shorten my testimony. I am mindful of the fact that Mr. Wilson's presentation indicated some movement toward trying to make the bill more workable. The only trouble with it is that it does not work that way. The problem is one of selling the end products of zinc, not selling zinc.

Diecasting is the major domestic market for zinc and also the market with the greatest potential for growth. The alloys used to produce diecastings is the real answer to stabilizing and protecting the health single use. Maintaining and expanding the high level of use of zinc liecastings is the real answer to stabilizing and protecting the health of the domestic zinc industry. In our opinion, quota legislation will serve only to prevent growth in, and diminish, the use of zinc for diecasting.

Our reasons for this opinion are that the present quota proposals are unsound, unrealistic and unworkable. We have tried for years to establish a difference between special high-grade zinc which is the only grade of zinc that can be used by the diecasting industry, and zinc. The limitations that occur in S. 289, and as far as I can hear the limitations in the amended bill, are more restrictive of metal imports than the quotas which were in force from 1959 through 1965. The only time that that quota system was really put to the test in 1964 and 1965, it failed, and sufficient metal for diecasting needs could neither be provided domestically nor imported.

There is one difference now, however. The shortage of special high grade zinc that occurred in 1964 and 1965 was overcome by the release of metal from the stockpile, whereas the shortage which will be created, whenever this legislation is triggered, have no buffer stock available to overcome it.

Senator BENNETT. May I ask you a question at this point. Do the smelters produce the slabs which you use in diecasting or is there someone in between who takes zinc from the smelter?

Mr. LAINE. We take slabs from the smelter, and they are alloyed either by the die caster or by an inbetween alloyer. The problem is one of supply of special high-grade zinc.

Senator BENNETT. This is my question.

Mr. LAINE. And the smelters have not, were not able to produce enough special high-grade zinc to meet the needs of the industry.

Senator BENNETT. This was my question. Do the smelters themselves produce this difference and special quality?

Mr. LAINE. Yes.

Senator BENNETT. Or is it required that someone else do it?

Mr. LAINE. No, the smelters produce it and there was insufficient capacity to meet our requirements.

Senator BENNETT. Do you know whether this is being corrected by the smelters?

Mr. LAINE. Yes. They will correct it with time.

Senator BENNETT. Have they corrected it?

Mr. LAINE. Not yet. But there won't be any market left. This is the point that I make. They are faulting the needs of the industry, and as I have pointed out, we are living in 1970 right now. Automobiles for 1968, and that is 60 percent of diecasting consumption, are being produced with zinc diecastings that were designed from 2 to 3 years ago. 1969 models will not be affected so severely, but the 1970 models will be definitely hurt, should there be any kind of quota legislation that will affect the supply of zinc. I think that a quota system that faults that need, the need of its principal consumer, is somehow unsound.

Senator BENNETT. Do I understand your testimony that the automobile manufacturer keeps 2 or 3 years' supply of zinc ahead?

Mr. LAINE. No. They design ahead.

Senator BENNETT. I know they design ahead.

Mr. LAINE. And in those designs, they specify whether it will be zinc or not zinc. Now any automotive part that I know of can be made of zinc or of something else.

Senator BENNETT. For instance?

Mr. LAINE. Plastics. Now, let us look at that, because this is why we think that the program is unrealistic. It does not recognize the impact that it will have on the size of the future market for zinc diecasting. We are not immune from competition. The prospect of a quota, of short supply or of high price, which is inherent in the term "quota" will intensify designing away from zinc die castings. The American Zinc Institute on July 18, 1967, announced the initiation of a large-scale-publicity effort to counter the threat of plastic moldings being substituted for zinc diecastings. This trend of designing away from zinc already exists in the automobile industry—which uses over 60 percent of all zinc diecastings produced in the United States.

In their opinion, whether we can it stabilization or adequate supply, "quota" to them means danger to forward planning and the design departments both in automotive and in the appliance industries. I have detailed that in the testimony before the Interior Committee. It is a fact of life. The fact is that when you have a quota on a material, it makes the job of trying to sell a zinc die-cast part almost impossible. First we have to offset the propaganda and selling efforts of the competitor, the price that the competitor sells at, and all of the other factors that are involved in a very complex sale, because they are tooling at high cost for future production, and this is a very difficult situation.

Now, it will be far tougher if there is quota legislation adopted, and we think that that will be legislating a course of action that is going to defeat its own purpose. I am talking about special high-grade zinc. I am not getting into the entire lead and zinc situation. This is a special case, and it is going to really have a very disastrous effect.

Senator BENNETT. Can you tell the committee or are figures available which would indicate the extent to which plastics have already penetrated the market that you consider to belong to you?

Mr. LAINE. The best estimate that we had at the time of the testimony last April was 54 million pounds in 1968 vehicles.

Senator BENNETT. And what percentage of that is the total that you might have had? You gave me a pound figure, 54 million pounds.

Mr. LAINE. That was out of a total automotive use, I believe, of around——

Senator BENNETT. Is that in your statement?

Mr. LAINE. Yes, the figures are there.

Senator BENNETT. You will come to it then. I am sorry.

Mr. LAINE. But above all of those problems is the fact that the proposed legislation is actually unworkable. It cannot work. Let me explain why.

Here is the situation: 50 to 60 percent of the total slab zinc imported annually comes from Canada. This tonnage is virtually all special high-grade zinc. Quota legislation is going to affect this.

Second, each of the three Canadian zinc producers owns one or more diecasting plants, and the automobile industry also owns diecasting plants in Canada. Third, the Canadian automobile agreement permits the entry of original equipment automotive parts free of tariff or quota restictions.

To the diecasting industry this means that zinc diecasting produced in Canada, of Canadian special high grade slab zinc, can, and undoubtedly will, replace any special high grade slab zinc that might be denied entry by quota limitation. We think this will not be of much more use to the domestic zinc industry than it will be to us.

As we see it, this is legislating futility not a limitation on imports of zinc. We suppose it will become known as the back-door policy of our diplomacy.

We are as much interested as the zinc industry is in a sound market. We have heavy capital investments in zinc diecasting facilities, want to build domestic zinc markets by increasing the domestic use of zinc diecastings.

We want to build domestic zinc markets by increasing the domestic use of zinc diecastings. Quotas which intensify designing away from zinc, or make it attractive to bring in quota-free zinc diecastings from Canada, are not, as we see it, in the best interests of the diecasting industry, the domestic zinc industry, or the national economy.

In our opinion the best thing that the committee could do is issue a statement that would deplore the thought of quotas on special high grade zinc. That might help the automobile industry see this thing straight. Right now we are in a mess with them as far as future design is concerned. We are quite sure that any material implication with relationship to the supply or price of zinc will just be one added point that will switch a design to plastic or some other material and in major quantities. That is our opinion in opposing the provisions of the bill.

(The complete prepared statement of Mr. Laine together with the attachments thereto follow:)

STATEMENT OF DAVID LAINE, SECRETARY, AMERICAN DIE CASTING INSTITUTE, OPPOSING ZINC IMPORT QUOTA PROVISIONS OF S. 289

My name is David Laine, I am secretary of the American Die Casting Institute, located in New York City—the trade association of the custom die casting industry. I should like to thank the Committee for this opportunity to express the opinion of the principal slab zinc consuming industry on the subject of import quotas.

To conserve the time of the Committee, I have appended my testimony, before the Subcommittee on Minerals, Materials and Fuels of the Senate Committee on Interior and Insular affairs, on S.289—the Lead and Zinc Act of 1967. In that testimony I covered specific details of the bill. My purpose today is to cover developments since that testimony on April 12, 1967 and to picture for you the impact on the use of zinc for die casting now and in the future of legislation imposing quotas on zinc.

Die casting is the major domestic market for zinc and also the market with the greatest potential for growth. The alloys used to produce die castings require the consumption of more slab zinc than any other single use. Maintaining and expanding the high level of use of zinc die castings is the real answer to stabilizing and protecting the health of the domestic zinc industry. In our opinion, quota legislation will serve only to prevent growth in, and diminish, the use of zinc for die casting.

Our reasons for this opinion are that the present quota proposals are unsound, unrealistic and unworkable.

The quota scheme, as proposed makes no provision for an adequate supply of special high grade slab zinc—the one and only grade which can be used for die casting. The proposed limitations in S. 289 are more restrictive of metal imports than the quotas which were in force from 1959 through 1965. The only time that quota system was really put to the test, in 1964 and 1965, it failed, and sufficient metal for die casting needs could neither be provided domestically nor imported. There is one difference now, however. The shortage of special high grade zinc that occured in 1964 and 1965 was overcome by the release of metal from the stockpile, whereas the shortage which will be created by the proposed legislation will have no buffer stock available. There is no longer any special high grade slab zinc left in the stockpile. Any quota system which faults the needs of its principal consumer is unsound in conception.

Legislating a shortage for the particular grade of slab zinc needed by the die casting industry is unrealistic, in that it fails to assess the impact it will have on the size of the future market for zinc die castings. Zinc die castings are not immune to competition from other materials and processes. The prospect of short supply, or high price, which are inherent in the term "quota" will intensify designing away from zinc die castings.

The American Zinc Institute on July 18, 1967 announced the initiation of a large scale publicity effort to counter the threat of plastic moldings being substituted for zinc die castings. This trend of designing away from zinc already exists in the automobile industry—which uses over 60% of all zinc die castings produced in the United States.

Regardless of the use of euphemisms as "stabilization" or "adequate supply" the word "quota" means "danger" to forward planning and design departments of the automobile and other major industries. This is a fact of life. As tough as it may be for die castings to offset the propaganda and selling efforts of its competitors it will be far tougher if quota legislation is adopted. We think that legislating a course of action that will defeat its stated purpose is unrealistic. To make bad, worse, is the fact that the proposed legislation is unworkable and cannot work even if adopted. The actual situation existing today compels this conclusion.

1. 50% to 60% of the total of slab zinc imported, annually, comes from Canada. This tonnage is virtually all special high grade zinc. Quota legislation would, obviously, affect this.

2. Each of the three Canadian zinc producers owns one or more die casting plants, and the automobile industry also owns die casting plants, in Canada.
3. The Canadian Automobile Agreement permits the entry of original equipment automotive parts free of tariff or quota restrictions.

To the die casting industry this means that zinc die castings produced in Canada, of Canadian special high grade slab zinc, can, and undoubtedly will, replace any special high grade slab zinc that might be denied entry by quota limitation. We think this will not be of much more use to the domestic zinc industry than it will be to us.

As we see it, this is legislating futility not a limitation on imports of zinc. We suppose it will become known as the "back-door" policy of our diplomacy.

We, as die casters, with heavy capital investments in zinc die casting facilities, want to build domestic zinc markets by increasing the domestic use of zinc die castings. Quotas which intensify designing away from zinc, or make it attractive to bring in quota-free zinc die castings from Canada, are not, as we see it, in the best interests of the die casting industry, the domestic zinc industry, or the national economy.

In our opinion a strongly worded press release by the Senate Committee on Finance deploring the very thought of quotas on zinc would be the strongest help the zinc industry could get at this time.

Thank you, Gentlemen.

EXCERPT FROM HEARINGS OF THE SUBCOMMITTEE ON MINERALS, MATERIALS, AND FUELS OF THE COMMITTEE ON INTERIOR AND INSULAR AFFAIRS UNITED STATES SENATE S. 289

STATEMENT OF DAVID LAINE, SECRETARY, AMERICAN DIE CASTING INSTITUTE

Mr. LAINE. My name is David Laine. I am secretary of the American Die Casting Institute located in New York City. The institute is in the trade association of the custom diecasting industry.

We oppose the import limitations on zinc proposed in Senate bill 289. More specifically, we oppose the limitations on imports of zinc metal.

The proposed quotas on imports of zinc metal are, we believe, both discriminatory and unrealistic—particularly since they make no provision for an adequate supply of special high grade slab zinc for die casting consumption—the principal domestic use for slab zinc.

Experience under the late and unlamented quota system and statistical evidence confirm the continuing imbalance between domestic production of special high grade slab and consumption for diecasting alloy. The implication of now legislating this shortage is a matter of deep concern.

The statistical picture indicates that from 1959 to 1966 domestic slab zinc production increased 29.7 percent and total slab zinc consumption increased 57 percent. In this same period the highest increase in domestic production of special high grade slab zinc was 45.4 percent and the highest increase in consumption of special high grade was 64 percent both of these in 1965.

I don't like statistical presentations. In the present case I think statistics are unnecessary. All I mean to point out is that diecasting is the fastest growing as well as the largest market for slab zinc.

Here are some pertinent considerations. In 1964 and 1965 with metal quotas in force—and more liberal than those proposed in Senate bill 289—the demands for special high grade slab for diecasting could not be met. This resulted in all kinds of maneuvering including premium prices for diecasting alloy—substantial tonnages moved at premiums up to 5 cents per pound. Fortunately, with the agreement of the zinc industry, legislation was passed to release zinc from stockpile. All, or virtually all, that was sold was special high grade. Without this supply automobile production would have been seriousy impeded and the general economy would have suffered.

There is now no special high grade slab zinc in the stockpile and no emergency bank to offer relief. We feel this should not be forgotten.

Another consideration is this: Automotive use, since 1962, has been almost 60 percent of total zinc diecasting output. Increases in the use of zinc diecastings per car are most important and represent real gains for the zinc industry. Such gains, however, are often undetectable because of the tremendous impact of passenger car volume on total diecasting consumption.

For example in 1965, when 9.3 million passenger cars were produced, we estimated equivalent use of zinc diecastings per car at 81.1 pounds, and total automotive use of zinc diecastings at 382,000 tons. In 1966 passenger car production was 8.6 million and estimated equivalent use per car was up to 85.8 pounds but total automotive use of zinc diecastings was down to 369,000 tons. Obviously had car production been 9.3 million, diecasting use would have been up to 399,000 tons.

We, of course, recognize this difference between total consumption and per car use. It is to diecasters a fact of life. While the feast or famine of total passenger car production are completely beyond our control, we strive to increase the use of zinc diecastings per car.

This is done by working on advanced designs and engineering zinc diecastings to the style concepts of future automobiles. To us as diecasters and to the zinc industry this is crucial. Adoption by an automobile manufacturer of additional zinc die-cast parts is not easy to accomplish. When a part appears satisfactory to the designers and stylists and engineers it is still subject to economic evaluation against competing designs, produced of other materials and by other methods.

It is no secret that a significant number of zinc diecastings have already been lost for some 1968 as well as 1970 model vehicles. We are at present fighting to regain them for 1971 and future models. The zinc industry knows this—or some producers, at least, know it.

We seriously doubt that the proposed quotas of slab zinc will help regain zinc diecasting markets or build new ones. We feel quite sure that the imposition of quotas will bring about an increasing trend to design away from zinc diecastings.

Another consideration that appears to have been overlooked is that the imposition of quotas on imports of metal may very easily boomerang as far as zinc diecasting production for automobiles is concerned. Under the terms of the United States-Canadian Automotive Agreement the zinc die-cast parts of new automobiles can be produced in existing Canadian diecasting plants and be shipped into the United States free of both tariff and the proposed quota restrictions.

These are pertinent considerations which we, as diecasters, feel must be given consideration from the practical standpoint of protecting and increasing the consumption of zinc.

Returning now to the bill itself, it seems to us that, in the statement of purpose, the words "to assist in the national defense" are unrealistic in the absence of a stated military requirement for zinc. This is especially so since there is no provision in the bill to assure a sufficient supply of special high grade zinc which would be the important element in military requirements.

In section 201(b) the failure to distinguish special high grade zinc metal from other unwrought zinc appears to us as discriminatory and unrealistic for the reasons already stated.

In section 201(h) the determination of a quarterly quota by lumping general imports of zinc metal and zinc ores makes no distinction for variations or differences in requirements during the base period for metal versus ore and for special high grade metal in particular.

In section 203(a) the use of producers stocks of slab zinc versus domestic shipments by such producers as a triggering mechanism appears to us as discriminatory in that it takes no account of consumption or consumer inventories of slab zinc and zinc ingot.

In section 203(b) the setting of the minimum quota at 130,000 tons appears unrealistic since this level proved insufficient in the past.

In section 203(c) there is double discrimination in that ores are unduly favored over metals and in the failure to assure sufficient imports of special high grade slab zinc in the light of the apparent shortage of productive capacity to meet diecasting needs.

In section 203(d) the assignment of specific quotas to countries supplying more than 10 percent of total imports in the base period is discriminatory and unrealistic. The ratio of producers stocks to producers shipments is critical and we believe subject to manipulation. In addition, it makes no provision for considering changes in rates of consumption as related to productive capacity for special high grade.

Section 405 provides that quotas established under the act shall be in effect for a term of 3 years unless terminated by the ratio of producers stocks to producers shipments. This makes no provision for assuring adequate supplies of special high grade zinc. In fact high inventories of prime western or other grades, could inhibit termination of the quota in the face of a shortage of special high grade which is sure to develop in the light of the shortage of current productive capacity for special high.

It is our considered opinion that, if this legislation were in force, in the light of today's reduced level of automobile production, quotas could be triggered by August or September. Snould this happen it would appear to limit the availability of special high grade slab zinc to about 575,000 tons per year—this total represents the 1965 rate of domestic production of special high—482,000 tons—and, incidentally, not all of that went to diecasting—plus 93,000 tons of the 104,000 tons minimum of metal annually importable under the bill.

This is the only calculation that can be made from a diecasting standpoint—and, incidentally, it happens to be the calculation that was made by our largest customers—and it spells out a supply situation that is less than consumption in 1965 or 1966 and below requirements for 1967 and the ensuing 3-year period.

It offers no hope of meeting diecastings needs for special high grade zinc in 1970 which we estimate at over 800,000 tons.

PERTINENT STATISTICS

[In thousands of tons]

	Production of slab zinc	Consumption of slab zinc	Production of special high-grade slab zinc	Consumption of special high-grade slab for die-casting alloy
1959	856.5	956.2	331.3	383.4
1960	868.2	877.9	357.2	331.1
1961	902.0	931.2	353.5	337.2
1962	938.3	1,031.8	392.9	419.0
1963	952.9	1,105.1	411.3	462.5
1964	1,025.7	1,207.3	468.7	517.4
1965	1,078.3	1,354.1	481.9	629.8
1966 [1]	1,110.4	1,400.0	466.3	605.0

[1] Preliminary.

Source: U.S. Bureau of Mines.

Senator Moss. Thank you, Mr. Laine, for your thoughtful testimony, and representing the users of zinc, of course, you have great interest in it.

You say that there is no special high grade zinc in the stockpile and no emergency bank to offer relief. Would this indicate that there is no surplus at all of zinc now in the market?

Mr. Laine. At the present time, there is inventory in the hands of producers, and inventories in the hands of consumers, but should consumption rise to a level of 9 million automobiles, there is not enough, and there is no longer a stockpile to get excess from. The inventory that the producers had dropped very rapidly when automobile production went up, and there is now no place to turn.

You see, the fact of the matter is that the die casting industry is living in 1971. That is where we are right now. And when the automobile industry looks at a part, to decide whether to make it out of plastic or to decide to make it as a zinc die casting, their economic analysts come up with the fact that they are not going to be subjected again to demands for premium prices for either die castings, because the metal isn't available, or the metal, if they are making it themselves, and they have already started designing away from zinc die castings.

This is 1967; it is not in the statistics. I doubt that the statistics for 1967 will show a drop of any considerable amount, barring a strike in the automotive field, of total consumption. But we know these parts are already gone. We are not going to be making them for 1968 and 1969 automobiles, and from now on, the new ones that are coming up, we get told, "How do we know there will be material?

Now, how do you answer that in the face of a quota bill, which to everybody in the world except the zinc industry means a restriction? Quota means retriction, and if you can take this out of the minds of the analysts in the automotive field and the appliance industries, then we have something. But as a practical matter, it does no work.

Senator Moss. Well, of course, there would have to be some piling up of zinc before you could trigger the quota into effect. Is that not right?

Mr. Laine. Senator, as of March 31, according to the American Zinc Institute, the inventories of producers were 125 percent of their average sales. It is not at all inconceivable, over the next 3 months, with the automobile industry in the situation that it is, the consumption can drop so considerably that if production remains where it is, that the situation with regard to the triggering mechanism would be satisfied. This is what we are talking about.

Yes; there will be a buildup in inventories at certain times. The automobile industry builds up inventories. About every industry I know builds up inventories. They also plan their production carefully to meet the needs of the market. They consult consumers, and they try and come up with a balanced program. I don't think the zinc industry has done this, Senator.

Senator Moss. You testified there is already a degree of substitution for zinc in the automotive industry. What is the principal substitute material?

Mr. Laine. Plastic moldings.

Senator Moss. Plastic moldings. And your point is that without insurance of a supply of zinc, you have little opportunity to compete and get back into zinc die castings, rather than having them continue with the plastic?

Mr. Laine. That is right.

In addition to our problems of competing with the plastic molding, we get faced with the question of "How do we know there will be enough zinc?" We cannot answer this. There is nothing in this bill that indicates anything except that there won't be enough.

Now, Clark Wilson, this morning, did recognize, did state that the producers recognize this, but isn't a problem of the producers recognizing it. It is not a problem of me recognising it. Our customer industries do not recognize it. They go by the book, and here is what was produced, and here is what will be allowed in, and everything else is if money, and there will be pie in the sky when we get there, but we don't have it, and unless we can justify it right now, it is just as easy to tell your people to design away from zinc. One producer has expanded, one customer of our industry, and an automobile producer has expanded its plastic molding facilities by six times, and while this is not necessarily the end of the world, and we don't think it is, it does not make it easier to go back to these people and face the fight over inadequate supply of material in addition to everything else. And from a realistic standpoint, this is what it means.

Senator Moss. When you referred to, or said, that there would be a specific quota for only one country, were you referring just to the United States?

Mr. Laine. No. Canada is the only country that exceeded 10 percent of the allowable metal imports. They would be the only one with a quota, and they are the ones that probably need it less, because they can send it in as finished die castings. I think the United States-Canadian Automotive Agreement Act probably is only beginning to be felt, but faced with a quota on shipping metal in, I think they would vastly expand their die casting production. I don't think there is any question about it.

Senator Moss. Thank you. Senator Jordan?

Senator Jordan. No questions.

Senator Moss. All right. Thank you, Mr. Laine. We appreciate very much having your testimony.

Mr. Laine. Thank you, sir.

Senator Bennett. I appreciate your comments. On page 44 of the report of the Subcommittee on Minerals, Materials, and Fuels of the Committee on Interior and Insular Affairs dated April 12, 1967, there is a paragraph which contains estimates of the production of special high grade in the United States. This is Mr. Wilson testifying:

> At this point, Mr. Chairman, I would like to mention that there has been some comment that in the case of zinc while our overall capacity might be sufficient to take care of our consumers, in the case of special high-grade zinc we might possibly have a tight spot. Some of our people have furnished information that special high-grade zinc capacity at the present time is 761,000 short tons per year. Part of this is used for high grade, but this is a pretty good figure regarding the special high grade. In 1966 we produced 569,000 short tons of special high

grade, and we used somewhere between 600,000 and 625,000. It looks as if we are in good shape there as the imports will include special high-grade so that we do not think there is any particular problem.

Do you have those figures?

Mr. LAINE. I do not have that particularly. I am familiar with those figures, however. All I can say is that all of the special high-grade zinc which is produced in the United States is not used for diecasting. There are other uses. In the testimony which I gave earlier, I showed the production of special high-grade slab zinc. The figures came from the Bureau of Mines, and I showed the consumption of special high-grade zinc for diecasting, and in 1965 the production of special high-grade slab zinc was shown as 481,000 tons, and the consumption of special high-grade slab zinc for diecasting was 629,000 tons. In 1966, this was a preliminary figure, there was 466,000 tons produced, 605,000 consumed.

Senator BENNETT. And Mr. Wilson's figures say in 1966 we produced 569,000 tons and consumed between 600,000 and 625,000 tons, so his production figure is higher than that of the Bureau of Mines.

Mr. LAINE. That is right. Also as I say those are total production figures, and we do not get all of it. There is a need for imports, but we are dealing with a psychological factor in a vulnerable market. We are not dealing with actual supply. We are dealing with the reasoning that a manufacturer goes through in determining whether he will or will not design a part for zinc.

Senator BENNETT. Suppose there was a substantial curtailment of zinc production in the United States as the result of a break in the price. This is very real to me because the big zinc mines in my State that I knew 20 years ago are closed, and there is no production coming out of them. What, then, would be the effect on people who cast special high-grade zinc parts?

Mr. LAINE. They would have problems. There is no question about it.

Senator BENNETT. So the thing has a balance. If you get it down too low, you shut off your domestic supply. If you get it up too high, the automobile manufacturers use something else.

Mr. LAINE. That is right, but one thing occurs to me, and that is that the bill was not aimed specifically at special high grade.

Senator BENNETT. That is right.

Mr. LAINE. And it has a lot of other things in it.

Senator BENNETT. That is right.

Mr. LAINE. I have been trying for 20 years to get special high-grade die divorced from other considerations through some special treatment, but it does not seem to register that what we are talking about is an attitude on the part of the end product consumer, the designer for the future.

Senator BENNETT. I see the picture.

Mr. LAINE. And it is a very difficult situation, Senator.

Senator BENNETT. Thank you. We still have one more witness and since 6 o'clock is coming up, I would appreciate it if this discussion ended and Mr. Fletcher may come forward if he is present.

Will you come forward, please, sir.

Mr. FLETCHER. Yes, sir.

STATEMENT OF AUBREY FLETCHER, EXECUTIVE VICE PRESIDENT OF THE FIRM OF C. TENNANT, SONS & CO., OF NEW YORK CITY; ALSO PRESENTING A STATEMENT FOR THE AUSTRALIAN MINING INDUSTRY COUNCIL

Mr. FLETCHER. If I may, Senator Bennett, I intend to present two separate briefs. I would like if I may to have the full text of the statements which I have presented to the committee inserted in the record.

Senator BENNETT. These will be included as though you had read them.

Mr. FLETCHER. But for the sake of brevity here I shall simply deliver a rather brief summation of each of them and then of course be available for questioning.

My name is Aubrey Fletcher. I am executive vice president of C. Tennant, Sons & Co., of New York, and I am pleased to have this opportunity to appear before you to present our general views on the matter of lead and zinc import quotas and our specific views on S. 289, the proposed Lead and Zinc Act 1967.

C. Tennant, Sons & Co., of New York is an American corporation with headquarters in New York City. As merchants engaged in foreign commerce for more than a century, and in the trade of nonferrous metals and ores for nearly 50 years, we wish to submit this statement registering our opposition to S. 289.

1. HISTORICAL BACKGROUND

Over the past 15 years or so a great number of hearings have been held, some before the Tariff Commission and others before committees of Congress, in order to study various proposals designed to provide added protection for the domestic lead zinc industry. As a result, in 1958 a system of import quotas were imposed by the administration in the hope that they would provide the domestic industry with the protection they were seeking, but after 7 years they were removed having failed in their objective.

The Tariff Commission, which has studied the lead-zinc situation exhaustively on many occasions over the past 14 or 15 years, has expressed itself fully and unequivocally on the unsuitability of import quotas as a means of protecting the domestic lead-zinc industry.

The Commission first expressed an adverse opinion on lead and zinc quotas 13 years ago in its report to the President of May 1954 (p. 30). Subsequently, Commissioners Sutton, Jones, and Dowling devoted 31 pages in the Commission's report of April 1958 to a thorough and explicit statement of their findings which constitute an excellent summation of the reasons why quotas would be undersirable and harmful to the U.S. lead-zinc industry.

At that time the Commissioners stated (p. 85 of their report) "we reject quotas as a feasible remedy in this instance" and in the next paragraph they go on to state that in their opinion "the imposition of quotas would be definitely harmful to the best interests of domestic lead and zinc producers."

In their report to the Congress dated March 16 (p. 159), and made pursuant to Senate Resolution 162 of the 86th Congress, the Tariff Commission again expressed their objections to quotas and commented that "Import quotas are prejudicial to the establishment of domestic lead and zinc mining operations on a sound and, more particularly, stable basis."

In a later report to Congress in May 1962 (p. 48) and made pursuant to Senate Resolution 206 of the 87th Congress, after some 3½ years of operation under the then existing quotas, the Tariff Commission concluded "that import quotas had not proved to be a satisfactory means of curtailing imports of lead and zinc."

A substantial portion of the domestic lead-zinc industry has supported the Tariff Commission in these views. In a petition dated November 24, 1959, six domestic lead and zinc smelters requested a review of the "escape clause" action on lead and zinc. They generally took the position that import quotas were not a suitable means of protection for the industry and that "the maintenance of quotas which arbitrarily limit supplies may prove a dangerous course to follow"—page 4 of the petition.

The record shows that the weight of all the evidence over the years has been consistently and overwhelmingly against import quotas as a means of protection for lead and zinc.

2. CONSUMER REACTIONS

There is a considerable degree of opposition to lead and zinc import quotas in the domestic consuming industries. The American Die-Casters Association, speaking for a major segment of the zinc consuming industry has repeatedly expressed its objections to such measures to various Government agencies. The Association of American Battery Manufacturers and also a group of large tetraethyl manufacturers—who all together represent 54 percent of the lead consumption in this country—also filed statements with the Senate Committee on Interior and Insular Affairs expressing their objections to S. 289. Their opposition is on the record so we will not attempt to speak for them here.

3. OBJECTIVES OF S. 289

The precise objective of S. 289 is not clear to us. Apart from the general indication that its purpose is "to protect the domestic economy and promote the general welfare" the only other stated purpose is that the bill is intended "to assist in the national defense." There are, however, well over 1 million tons each of lead and zinc in the national stockpiles and the OEP has declared all this tonnage as surplus, having fixed the national defense requirement as zero for stockpile purposes. Furthermore, two of the world's major producers, Canada and Mexico, are our neighbor countries with rail supply lines to this country.

Although the bill does not say so, its sponsorship would lead one to expect that its prime purpose is to assist the domestic mining industry. However, as the bill is now written, it is difficult to understand how it can be of much help to miners.

The wording of title I, sec. 101(d) and title II, sec. 201(d) defining the term "Imported into the United States" means that, whereas the bill gives the appearance of imposing import quotas on metal and concentrates alike, it really does not do so in practice, and practical implementation of the concentrate quotas is left in the hands of the smelters.

Most domestic smelters are bonded and under S. 289 they could continue importing concentrates in bond, in excess of the quota limitations; they could, if they wished, process these concentrates into metal and they could also deliver some of the metal to the market. This means that there is at best only a qualified limitation of imports of concentrates and ore under this bill so that it is difficult to see what benefit it would confer upon the independent miners.

The major importers are, in fact, the U.S. domestic smelters themselves, particularly the zinc smelters, who imported over 520,000 short tons of metal contained in concentrates in 1966. Here again, S. 289 clearly intends to try and help, not the mines, but the smelters who wish to maintain a high rate of imports since it fixes minimum import quotas on (*a*) zinc concentrates at 104,000 tons per quarter, or 416,000 tons per year and (*b*) lead concentrates at 30,000 tons per quarter or 120,000 tons per year. Both these minimum quotas are roughly at the level at which the smelters have been importing over the past 3 or 4 years.

The purpose of the bill would, therefore, appear to be, not so much to help the miners nor to effect an overall limitation of imports, but to reduce the consumers' share of the imports by increasing the smelter's share, and thereby ensuring that the smelter gets the benefit of any financial savings on imports, instead of letting the consumer get these benefits.

4. OBJECTIONS TO S. 289

There is no reason to believe that, in practice, S. 289 would work any better than the import quotas established in 1958 and we object to it for the following reasons:

(*a*) As the earlier quotas conclusively proved, it is simply not possible to insulate the U.S. market from the outside world market because the United States inevitably depends on imports for part of its lead and zinc requirements. In fact, the ineffectiveness of quotas is demonstrated by the fact that in 1962, 3 years after the previous quota system was imposed, the lead price in the United States sank to 9.50 cents, its lowest level in 15 years.

(*b*) The quotas under this bill would be imposed or removed, not at the decision of the Government, or some impartial agency, but by the domestic smelters themselves, who alone can control the disposition and levels of their stocks. This means the domestic smelters, whose stocks only represent part of total market stocks, themselves would have the power to decide when the metal quotas should come on and when they should come off, as well as having the power to manipulate the concentrate quotas. This means to us a new and dangerous precedent to establish in international trade matters and we consider it to be one of the most objectionable aspects of this bill.

(*c*) This form of quota discriminates against those overseas suppliers who are geographically located farthest away. Tonnage which is eligible for entry at the time a steamer booking is made may be excluded by the time it arrives at the U.S. port, if a long sea voyage is involved, where as other shippers located close to the United States would suffer no such disadvantage.

(*d*) The allocation of the lead quota 50 percent to ore and 50 percent to metal is a new and arbitrary division for which there is no historical basis in recent years, and such a 50–50 division would operate with unusual severity against the exporters of metal.

Senator BENNETT. May I stop you. Do you mean exporters or importers?

Mr. FLETCHER. I meant the overseas countries exporting metal by that statement.

(*e*) The proposed quotas under S. 289 would involve extremely severe reductions for both lead and zinc metal imports. Although the bill appears to indicate a cutback to an arbitrary 80 percent of previous levels under the formulas purposed, we estimate that in practice lead metal imports could be reduced to less than 50 percent of the 1966 levels and zinc metal imports could be reduced to less than 45 percent of the 1966 levels. In fact, the level of the metal quotas under S. 289 would probably be much less than the metals quotas which existed from 1958 to 1965—which were themselves a reduction from the 1953 to 1958 level of imports—although U.S. consumption has greatly increased since that time. We see no justification for such a severe cutback on quotas which are supposedly designed as a standby measure.

Furthermore, very few countries would have their own quotas under this bill. In the case of zinc metal, for example, only one country would be likely to have its own quota, and in the case of zinc concentrates only two countries presently appear eligible for a quota of their own. In the case of lead concentrates, only three countries may be eligible. This denial of individual country quotas is also more restrictive than the 1958–65 quotas and would probably generate even greater difficulties.

To enact such restrictive and reduced quotas would be, in our view, a backward and most punitive step, for U.S. consumers as well as overseas shippers.

(*f*) An acute problem would arise in trying to implement long-term contracts under such a restrictive quota scheme. A domestic consumer buying foreign metal would never know in advance how much material they could count on receiving from their foreign suppliers. Since the U.S. domestic mines cannot supply this country's total requirements, many of our domestic consumers must depend to a large extent on imports which they frequently purchase under long-term contracts. The uncertainty such quotas would cause with respect to their future import supplies would make it very difficult for them to run their business in an efficient manner. We can think of nothing more likely to discourage consumers from using lead and zinc.

5. CONCLUSIONS

Lead and zinc are international commodities in which prices are governed by a worldwide law of supply and demand and unless a country is virtually independent of outside markets it cannot permanently insulate itself from outside influences by quotas, duties, or by any other artificial means.

Since the United States depends on imports as a matter of necessity for a substantial portion of its needs of lead and zinc, it follows that prices in this country are bound to be affected by outside world prices. To try to legislate against the law of supply and demand or to attempt to support the domestic mining industry by Government restrictions on a long-term basis is futile and self-defeating, and the record of the past 20 years clearly demonstrates this.

One of the main reasons for this is that lead and zinc are not manufactured items. They are basic raw materials for industry. Lead and zinc mines cannot be artificially created. The ore can only be mined where it is found, regardless of geographical boundaries. The basic fact is that the United States is not now and does not expect to be in the foreseeable future, self-sufficient in lead and zinc mine production. Quotas will not put ore in the ground where it does not already exist.

Furthermore, as findings of the Tariff Commission have already determined, lead and zinc imports are not a matter of cheap labor or low manufacturing costs abroad. The governing factor in the economics of mining is the grade of ore in the ground and the nature of the ore-body.

The four countries which have traditionally supplied the major part of U.S. lead and zinc import requirements are Australia, Canada, Mexico, and Peru, and these four countries already suffer from generally unfavorable balances of trade with the United States. In other words, they are already buying from us more than we are buying from them, and they have been doing so for several years now.

Over the 3 years 1964–66 inclusive, Australia's annual trade deficit with the United States has been approximately $400 million per year.

Canada's trade deficit has been approximately $800 million per year.

Mexico's trade deficit has been approximately $400 million per year.

Peru's trade with the United States was virtually in balance for 1966, but for the previous 5 years, Peru too ran a deficit in its trade with the United States which ranged between $29 and $90 million per year.

Trade between friendly nations cannot be a one-way street and if we reduce the ability of our friends and allies to sell to us, it follows that we correspondingly reduce their ability to buy from us.

I thank you, Senator. That is the end of my first statement on behalf of C. Tennant Sons & Co.

Senator BENNETT. Fine.

I will be happy to listen to the second.

Mr. FLETCHER. I greatly appreciate the opportunity to appear before you again to present a statement on behalf of the Australian Mining Industry Council. The purpose of which is very respectfully to register our objections to the imposition of lead and zinc quotas and to protest against the provisions of S. 289, the Lead and Zinc Act of 1967. The Australian Mining Industry Council includes over 10 companies engaged in prospecting, mining or mineral processing activities and it includes all the Australian producers of lead and zinc.

Australia is one of the world's largest producers and exporters of lead and zinc. The Australian lead and zinc mining and primary smelting industry, therefore, has a most real interest, either directly or indirectly, in the large U.S. economy as a market for a proportion of their normal output of lead and zinc.

For the following reasons the Australian Mining Industry Council is completely opposed to the reimposition of quota control of imports in the U.S. lead and zinc market. The United States has historically relied upon foreign suppliers for a very large portion of its consumption. Over the last 8 years the measure of this reliance has been for lead in excess of 30 percent, and for zinc in excess of 40 percent.

By the imposition of quota controls, the existing rest of the free world supply that is thereby diverted suddenly from the U.S. market is likely to cause violent movements to prices outside the United States and chaotic conditions in the world markets, which would inevitably affect prices inside the United States.

2. Short-term fluctuations in quotas as proposed in S. 289 would be particularly unsettling to those producers located geographically furthest from the United States. The long freight haul from Australia would mean that for much of the time the Australian producer would not know if quotas were applicable and if so what his U.S. quota would be at the time of arrival.

Next, and I do want to point this out, the U.S. domestic producer already has a not insignificant protective tariff on lead and zinc, and these have not been changed by the Kennedy Round, nor is there any suggestion whatsoever that the existing lead and zinc duties be reduced.

The provisions of S. 289 would affect Australia's trade with the United States in lead and zinc very seriously indeed. Under this bill, Australian imports of lead metal to the United States would be reduced to 40 to 50 percent of their present level, and on zinc metal there would be no quota at all for Australia, which means a potential reduction of 100 percent from previous levels.

Such a sudden and damaging reduction of Australia's sales volume in the U.S. market could have serious repercussions on the Australian lead-zinc industry and also on Australia's balance of trade with the United States. The effect of such quota controls would be to increase Australia's substantial deficit of trade with the United States.

Australia is a very good customer for U.S. exports and for many years has been buying substantially more from the United States than the United States buys from Australia. In fact, Australia is currently buying 25 percent of all its imports from the U.S.A., while the U.S.A. is only taking about 12 percent of Australia's exports. In absolute terms, the deficit against Australia in its trade with the United States has increased over recent years as the following table shows, and that table shows about a 400 million figure that I mentioned in my previous brief.

Australia's adverse balance of trade with the United States has increased dramatically as a result of stepped-up defense procurement in this country since Australia's involvement with the United States in Vietnam. Australia is now facing some years more of heavy defense purchases in the United States. However, the degree of the present deficit is already unhealthy, and it is disturbing to contemplate that the United States may through unilateral action further aggravate this deficit and deny to Australia the opportunity to maintain a not unreasonable level of trade with the United States in these important and traditional commodities. As friendly allied countries, it would not appear unreasonable to expect the United States to be sympathetic if not actively cooperative towards assisting Australia in reducing this large deficit rather than legislating new measures to worsen it.

The Australian Mining Industry Council wishes to record its appreciation for the committee's courtesy in agreeing to hear their views.

I thank you, Senator Bennett.

(The prepared statement referred to by Mr. Fletcher in his testimony follows:)

Statement of the Australian Mining Industry Council in Opposition to Lead and Zinc Import Quotas and to S. 289, Represented by Aubrey Fletcher

My name is Aubrey Fletcher. I am Executive Vice President of C. Tennant, Sons & Co., of New York and I greatly appreciate the opportunity to appear before you on this occasion to present a statement on behalf of the Australian Mining Industry Council, the purpose of which is respectfully to register our objections to the imposition of lead and zinc quotas and to protest against the provisions of S. 289, the "Lead and Zinc Act of 1967".

The Australian Mining Industry Council includes over 100 companies engaged in prospecting, mining or mineral processing activities, and it includes all the Australia producers of lead and zinc.

Australia is one of the world's largest producers and exporters of lead and zinc, and the Australian lead and zinc mining and primary smelting industry has a most real interest, either directly or indirectly, in the large U.S. economy as a market for a proportion of their normal output of lead and zinc. The following table sets out the Australian production figures for 1963–1966, in Thousands of Short Tons:

	1963	1964	1965	1966
Mine lead	447.1	413.3	397.8	395.2
Refined lead	266.9	246.1	243.5	240.6
Mine zinc	354.2	351.1	358.8	377.1
Refined zinc	201.3	207.7	222.9	217.6

Source: Monthly bulletin, International Lead and Zinc Study Group, 1967, vol. VIII, No. 3. Converted from metric tons.

The mine production figures relate to metal in concentrates and the differences between them and the refined metal figures indicates the extent of concentrate exports.

For the following reasons the Australian Mining Industry Council is completely opposed to the re-imposition of quota controls of imports to the United States lead/zinc market:

1. QUOTA CONTROLS WILL SERIOUSLY AFFECT NORMAL WORLD TRADING AND THE WORLD-PRICES OF LEAD AND ZINC

The United States has historically relied upon foreign suppliers for a very large portion of its consumption. Over the last 8 years the measure of this reliance has been, for lead, in excess of 80 percent and for zinc, in excess of 40 percent. If, by the imposition of quota controls, the United States expansion in the production of these metals presently being undertaken, is to be isolated and protected from the normal influences of price adjustments determining the level of supply and demand, the existing "rest of Free-World" supplies thereby diverted suddenly from the U.S. market are likely to cause violent movement to prices outside the U.S. and chaotic conditions in the world markets. It is generally accepted that the U.S. internal prices for lead and zinc can never be completely free from the influences of variations in the world prices outside the U.S. and any sharp decline in prices outside the U.S. inevitably will effect prices inside the U.S.

There does appear, therefore, to be a real danger that the proposed controls will accentuate, certainly outside the U.S., and probably also within, the instability in prices which it is presumably their purpose to diminish.

2. THE IMPOSITION OF LEAD AND ZINC QUOTAS WOULD BE INCONSISTENT WITH THE OBJECTIVES OF GATT

GATT's aim is to facilitate rather than to hinder the flow of international trade, and recognizes devices such as quotas as undesirable, except to afford temporary protection in the establishment of new industry. It is known that some new and rich lead/zinc fields are coming into production in the U.S. in the near future, but it is difficult to accept that the investment decisions associated with these ventures have been made on the basis of their requiring protection within the terms of GATT Escape Clauses. It is submitted, therefore, that the wider aims of GATT should not be discarded.

3. PREVIOUS EXPERIENCE OF QUOTA RESTRICTIONS ON LEAD AND ZINC PROVIDES PROOF THAT SUCH DEVICES UNNECESSARILY AND HARMFULLY DISTORT TRADING IN THESE METALS

The U.S. Tariff Commission has, in the past, expressed views to the above effect and, in a report to Congress in May 1962 (Page 48) it stated "that the quotas were discriminatory in their effects, favouring some concerns while creating unusual difficulties for others and that they seriously interfered with normal trade relations."

This statement is substantiated by the experience of Australian zinc under the previous quota arrangement. Australian zinc was not given a quota of its own, with the result that commercial imports of Australian zinc were unpredictably and drastically curtailed. The quota proposals of S. 289 would appear to perpetuate and exaggerate this type of discrimination.

4. SHORT-TERM FLUCTUATIONS IN QUOTAS CALCULATED IN ACCORDANCE WITH THE PROPOSED SHORT-TERM PERIODS OF IMPORT ENTITLEMENT MUST TEND TO BE UNEQUAL TO THEIR EFFECT ON DIFFERENT SUPPLIERS

Such variations would be particularly unsettling to those producers located geographically furthest from the U.S. The long freight haul from Australia would mean that for much of the time the Australian producer would not know if quotas were applicable and if so what his U.S. quota would be at the time of arrival. A shipment made to the U.S. to take advantage of the removal of quota control might find that the quota had been re-applied again by the time the carrying vessel had arrived. The quota concept ignores the necessity of continuing relationships between supplier and customer—such a relationship has, since 1948, been a mutually satisfying feature of Australian/U.S. trade in these metals.

5. DOMESTIC MINES UNABLE TO MEET COMPETITION AT CURRENT PRICES AND WITH PRESENT TARIFF PROTECTION SHOULD, IF NECESSARY, BE CARED FOR IN SOME OTHER MANNER

Not only are the current prices of these metals at a comparatively high level, but in addition, the U.S. domestic producer already has the advantage of a not insignificant protective tariff. In the case of lead ores this amounts to 0.75 cents per pound on lead content and 1.0625 cents per pound for refined lead. For zinc ore the tariff is 0.67 cents per pound on zinc content, and 0.7 cents per pound for refined zinc.

In addition, the U.S. domestic producer is placed in an advantageous situation because he already operates within the world's largest consumer market. He can nearly always offer faster delivery, and can usually do it with lesser freight costs than overseas shippers.

The domestic producers competitive situation has been further enhanced by recent technological changes which are referred to in the report of the Tariff Commission in June 1965 (Page 9).

"Most domestic producers will probably be in a stronger position to meet future import competition without import quota restrictions than in the past, as their competitive position has improved substantially in the past 6 years. Production has been concentrated in larger more highly mechanised and more efficient mines, requiring less labor per unit of output. The efficiency of lead and zinc smelting and refining has also improved, mostly through modernization of facilities, concentration of production in the more efficient plants, and near capacity operation in recent years."

6. THE PROVISIONS OF S. 289 WOULD AFFECT AUSTRALIA'S TRADE WITH THE U.S. IN LEAD AND ZINC VERY SERIOUSLY INDEED

Under this Bill Australian imports of lead metal to the U.S. would be reduced to 40–50% of their present levels, and on zinc metal there would be no quota at all for Australian zinc metal, which would potentially result in a 100% reduction from previous levels.

Such a sudden and damaging reduction of Australia's sales volume in the U.S. market could have serious repercussions on Australia's lead/zinc industry, and also on Australia's balance of trade with the U.S.

7. THE EFFECT OF QUOTA CONTROLS WILL BE TO INCREASE AUSTRALIA'S SUBSTANTIAL DEFICIT IN TRADE WITH UNITED STATES

Australia is a very good customer for U.S. exports and for many years has been buying substantially more from the U.S. than the U.S. buys from Australia. In fact, Australia is currently buying 25% of all its imports from the U.S.A. while the U.S.A. is only taking about 12% of Australia's exports.

In absolute terms the deficit against Australia in its trade with the U.S. has increased over recent years, as the following table shows:

[In thousands of Australian dollars]

	1963	1964	1965	1966
Australian imports from United States of America	473,182	647,970	700,346	733,767
Australian exports to United States of America	284,880	255,678	290,768	366,682
Australian deficit	188,302	392,292	409,578	367,085

Source: Provisional figures from the Commonwealth Bureau of Census and Statistics.

Australia's adverse balance of trade with the U.S. has increased dramatically as a result of stepped up defense procurement since Australia's involvement with the U.S. in Vietnam.

Australia realises that she may not always be able to achieve a balance with each of her overseas trading partners and expects that, at best, she will continue to incur substantial trade deficit with the U.S. for some time to come, particularly since Australia is now facing some years more of heavy defense purchases in the United States. However, the degree of the present deficit is already unhealthy, and it is disturbing to contemplate the possibility that the United States may, through unilateral action, further aggravate this deficit and deny to Australia the opportunity to maintain a not unreasonable level of trade with the U.S. in these important and traditional commodities. As friendly allied countries it would not appear unreasonable to expect the U.S. to be sympathetic, if not actively cooperative, toward assisting Australia in reducing this large deficit rather than legislating new measures to worsen it.

8. CONCLUSION

The Australian Mining Industry Council is completely opposed to quota devices in world trade in lead and zinc; its opposition to a quota control system is based on practical experience of it as a principle, and it is convinced that the new form in which the principle reappears not only maintains its basic unacceptability, but increases the intricacies of its operation.

The Australian Mining Industry Council wishes to record its appreciation of the Committee's courtesy in agreeing to hear the Australian views.

Senator BENNETT. Thank you, Mr. Fletcher.

Does Australia have any protective program or any program to protect its own lead and zinc industry?

Mr. FLETCHER. I would have to go back. If I remember rightly, they have very little. I think there are no duties at all on lead metal or lead concentrates, and none on zinc concentrates. I believe there is a duty on zinc metal, and I am afraid I do not know from memory. It is somewhat academic. Australia——

Senator BENNETT. Does not import?

Mr. FLETCHER. No, it is not likely, she produces so far in excess of her own needs that it is rather academic.

Senator BENNETT. A couple of years ago Australia imposed a quota on American tobacco, so Australia is not above using the quota system to protect an infant industry.

Mr. FLETCHER. Senator, I do not really want to get into tobacco, because I am really here on lead and zinc, but I do happen to have some figures that I have been given by the Australian Government on tobacco. I do not think it is quite correct to say that Australia imposed a quota on tobacco, according to the information I have.

There is no limitation as such on the importation of tobacco into Australia. They do require the use of a certain percentage of domestic grown tobacco. The figures I have before me show that despite this, U.S. exports of tobacco, both in poundage and in dollar volume, have been virtually constant from 1951 through 1966. There has been no decline in Australia's purchases of tobacco from this country. There is in effect, and I think this is rather interesting, a ceiling on the amount of tobacco that the Australian domestic growers may sell in their own country, and any increase of consumption is made up by imports.

Senator BENNETT. But if you preserve a relationship, if you preserve a percentage in all tobacco products which must be made up with Australian tobacco, and then you have a ceiling, then you effectively control the amount of tobacco to be consumed in two steps, don't you?

Mr. FLETCHER. Well, you do not control the amount of tobacco to be consumed, Senator. Clearly consumption can be whatever it wants to be. It is a matter of determining where that consumption will be supplied from. In this instance actually the facts are that 50 percent of Australia's tobacco is still being imported, 50 percent of the market is being supplied by imports, and that the United States, despite this quota arrangement that was made, and it is an internal type of quota, I will use that word for want of anything better, despite that fact the U.S.A. exports of tobacco to Australia have not declined either in dollar volume or in poundage, but if I may excuse myself I really do not want to get into tobacco any more than that. I do not know any more than that.

Senator BENNETT. I am not prepared to go into it at any greater depth, either.

Mr. FLETCHER. There are quotas, Senator, and I believe this country has them too, to some extent on textiles and dairy products, too, and I believe in oil. I am not really qualified to comment on the merits of these other quotas per se. I think insofar as lead and zinc are concerned, they are dubious, a very dubious remedy, and I prefer to limit myself to lead and zinc.

Senator BENNETT. The only reason I brought if up is that in the conclusion you say Australia's opposition to a quota control system is based on practical experience of it as a principle.

Mr. FLETCHER. On lead and zinc.

Senator BENNETT. But you are limiting this to lead and zinc.

Mr. FLETCHER. Oh, yes, sir. I make that very clear. I am well aware that virtually every country in the world has duties and quotas of one sort or another on a broad range of commodities. I do not think that any country would claim to be completely free trade, and I wouldn't want to stand here and say that Australia was. They make no such claim. We are talking about lead and zinc here.

Senator BENNETT. I appreciate your appearance here. I am sure your information will be very useful.

(The committee subsequently received a communication from Mr. Fletcher, which follows:)

NEW YORK, N.Y.

Senator RUSSELL B. LONG,
Chairman, Senate Finance Committee,
U.S. Senate,
Washington, D.C.:

With respect to your committees current hearings on import quotas we respectfully wish to request that there be inserted into the record of your hearings pages 85 to 108 inclusive from the U.S. Tariff Commission report to the President on lead and zinc under escape clause investigation No. 65 dated April 1958. We are happy to make copies readily available to you from this office if you should so decide.

(*The above referred to is made a part of the official files of the committee.*)

Since these pages are particularly germane to the question of import quotas as applied to lead and zinc and were written by an impartial body after extensive investigation and public hearings we feel confident that the valuable information contained therein will be useful to your committee in evaluating this question.

I much appreciated the opportunity of appearing before your committee yesterday and wish to express my thanks for the courtesies extended me by you and your colelagues.

AUBREY FLETCHER,
Executive Vice President, C. Tennant Sons & Co of New York.

(The following are communications received by the committee expressing an interest in the preceding subject:)

STATEMENT OF SENATOR HOWARD W. CANNON IN SUPPORT OF A REVISED FLEXIBLE LEAD-ZINC IMPORT QUOTA PLAN UNDER S. 289

Mr. Chairman and members of this committee, as Senator from Nevada I would like to express my concern about our domestic mining industry and, on a broader scale, a need for an overcall minerals policy.

I am testifying on behalf of the lead-zinc quota plan as envisaged under S. 289 because I feel that at this point in time we must come up with a vigorous foresighted minerals policy which will give primary attention to the health of the domestic industry while at the same time give foreign exporters some assurances of their share of the American market.

To date we have had very piecemeal legislation or the adoption, by Executive Order, of temporary controls and import quotas to fit unforeseen conditions affecting the supply and demand of strategic minerals. In the lead and zinc industry, this has been damaging and if this situation is neglected much longer, can prove disasterous.

Let me explain what has happened. Since the Second World War, industrialized nations overseas began to take advantage of our foreign assistance slogan of "Trade not aid" and came close to swamping us with their exports. By 1958 we were caught with too many thousands of tons in imports of lead and zinc with the result that our domestic producers either had to see many of our mines and smelters closed or we had to put some kind of limitation on excessive imports. In my own state of Nevada the zinc mining industry near Pioche was completely wiped out. Other areas also suffered disasterously.

Later, in the light of our increasing industrial needs, and particularly our requirements in our war-preparedness effort, the Administration came to realize that the quota limitations were no longer necessary, and quotas were abolished in October 1965.

However in the last two years the picture has changed and once again the domestic lead-zinc industry has proposed a flexible quota import system.

What has happened? First of all, new developing nations are getting into the act and are exploiting their mineral resources. American and European companies are establishing many new overseas sources of strategic minerals. Today there is actually a world-wide surplus of lead and zinc. And indications are that this surplus is increasing alarmingly; it is far greater than the industrialized nations can consume.

At home we have reopened old mines. We have developed new sources. We have expanded our concentrating, beneficiating and smelting facilities.

This means that with increasing domestic production of lead and zinc, the percentage of our total requirements on which we have to rely for imports is steadily dropping. Yet, because of the increasing world surplus of lead and zinc, coupled with lower overseas prices than domestic production costs, we are being faced with increasingly unnecessary and competitive imports. If this condition continues, we will again be faced with the prospect of closing down quite a few of our domestic mines with resulting unemployment and dislocation.

But an inflexible quota system is not the answer. Norms must now be established for a fair and workable minerals import policy. I feel that S. 289 is a step in that direction. This plan, with its various percentages of inventory stocks, quotas of ore and metal, quotas by country and various other flexible quotas which may be exceeded under various conditions is simple, fair to producer, consumer and importer alike and would be in effect only when found necessary to stabilize the supply-consumption ratio at proper levels.

Its objectives are to maintain a viable domestic lead-zinc industry, provide our industrial lead-zinc consumers with readily available supplies, allow reasonable quantities of imports of lead and zinc to supplement our domestic production, and to allow foreign producers access to our market. Under this plan flexible quotas would only be invoked after the Department of the Interior certifies to the President that excessive imports of lead and zinc might tend to hurt the domestic industry.

The proposal provides for flexible quota legislation with a five-year term. During this period, quotas on either lead or zinc ores and metal would become effective for a three-year period if domestic producers' metal stocks reach levels considered excessive as defined in the bill. The quotas would be canceled if stocks were reduced below normal levels and additional imports were needed. A minimum import quota would be guaranteed.

Mr. Chairman, we must not wait to act until trouble once again hits our mining industries. This plan is a step in the direction towards an overall national mineral policy and a forward step in trade relationships. For these reasons, I feel S. 289 is worthy of favorable Committee action.

Statement of Hon. Len B. Jordan, a U.S. Senator From the State of Idaho on S. 289, the Flexible Lead-Zinc Bill

Mr. Chairman, it is a privilege and a pleasure for me to express my views to you and members of your Committe on S. 289, which I have cosponsored.

This bill is intended to keep our lead and zinc mines in operation and yet to assure an adequate supply of these base metals through reasonable imports. Because of depressed prices on these minerals a few years ago, through an oversupply, quotas of imports were placed in effect. In the last few years, consumption as increased, and the oversupply has been reduced to a reasonable level, so the import quotas have not been removed. Since the import quota controls were terminated in October of 1965, there has been no legislative protection to assure the lead and zinc industry that the present favorable situation will continue.

It requires considerable time and a great deal of expense to accelerate production or ot get back into full mining production when mines are forced to close down because of low prices for ore. With the defense and industrial problems we now face, we should be considering plans and programs which will prevent an oversupply of these metals which well may lower the price so that our domestic mines may again be forced to close down. We, of course, must still assure that there will be adequate supplies of lead and zinc available at reasonable prices, through imports. It is a delicate balance to maintain, but I believe the flexible quota plan as outlined in S. 289 will meet this objective. This bill will give the assurance so that more exploration and expansion in processing in the lead and zinc industry will be possible and feasible. It is fair to the importer because such needs will be more clearly identified and defined. Specific import quotas will be assigned to countries with an import record in excess of 10% of imports to a certain base period determined at the time the quota plan became effective. Countries with the lower level of imports would participate in an "all other country" quota. Processors will be protected as individual lead or zinc manufactured products will be placed under an import quota during the period a quota is in effect on lead ores and metal zinc ores, if the item entering the United States is at a rate defined as being excessive. The processors and consumers will be protected on a long-range basis through the stabilization of a firm supply of these ores from domestic producers.

The bill proposes a five year term to permit re-evaluation of the program at proper intervals until a minerals policy has been clearly enunciated. The proposal would also provide that during the term of the lead or zinc import quotas, if a shortage of these metals should occur in the U.S. as determined by the relative level of producers of metal stocks, the import quota could be cancelled.

In summary, we do not want our mines to be forced to close again; we do not want to shut off imports which may be needed if the domestic consumption justified it; and the processor and consumer should be assured a supply of these basic metals at a reasonable price.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C.

HON. RUSSELL B. LONG,
Chairman, Senate Finance Committee,
U.S. Senate, Washington, D.C.

DEAR SENATOR LONG: The people of my District and the State of Washington are concerned that some action be taken to protect the lead-zinc industry. The ups and downs of the industry have resulted in closures, unemployment and loss of revenue. This industry could and should be stabilized.

Virtually all the small lead-zinc mines in Washington were eliminated from the production picture by the depressed price situation which prevailed during the years 1957–1962. There is now some evidence that the industry is beginning to recover from this period. In 1963 higher prices provided the impetus for increased exploration and development activities. Results of this increased interest in my district are evident. In 1964 the value of lead produced in the State of Washington, primarily in Pend Oreille and Stevens Counties in my district, was approximately $1,501,522, an approximate $400,000 increase from the 1962 figure. This increased to $1,862,400 in 1965 and declined slightly in 1966 to $1,769,418. In 1965 zinc production, primarily from the same sources as lead, totaled 22,230 tons valued at $6.5 million and in 1966 increased to 24,772 tons produced with a value of approximately $7 million. It is essential that the new jobs created and the resulting revenue be protected. We do not want a return to the gloomy 1957–1962 period.

The new developments in the industry were stimulated by increasing consumption of lead and zinc in the United States and abroad during 1963–1966. Expansion in the industry is going on all around the world. The temporary shortage of lead and zinc experienced in 1965 can easily change to a surplus in foreign markets. This surplus results in excessive and unneeded imports into the United States. In October 1965 the 1958 lead-zinc quota proclamation was terminated by the President, opening wide the door to our market for any world surplus of these metals. The figures speak for themselves: in 1966 lead imports rose to 482,752 tons from 343,877 tons in 1965, and, in the first eight months of this year, lead imports soared to 340,509 tons from 269,358 tons to the comparable 1966 period. Total zinc imports in 1966 amounted to 798,708 tons, compared with 578,834 tons in the preceding year. During the first eight months of this year, total zinc imports were 549,069 tons or some 57,000 tons greater than the 492,362 tons imported in the comparable 1966 period.

When foreign dumping of surplus lead and zinc occur, prices for our domestic supplies plunge downward. The domestic lead price held constant through 1965 at 16¢ per pound, f.o.b. New York. This was reduced to 15¢ on May 5, 1966 and again to 14¢ (the current price) on October 10, 1966. From October 21, 1964 to May of this year, the price dropped 1¢ to 13.5¢ per pound, f.o.b. East St. Louis.

It is imperative that a plan be enacted to serve as a deterrent to excessive imports, or we are likely to face a repetition of the intolerable and inexcusable conditions caused by the unneeded imports in 1957 and 1958. When imports are depressing our market, prices drop, and employment, production and profits suffer. Communities throughout the country where lead and zinc are produced will sharply feel the loss of jobs, wages and taxes. Something must be done to prevent this.

The Executive Department has consistently refused to accept its responsibility to formulate a national minerals policy which would stabilize the market and encourage the lead-zinc industry to explore and develop new ore reserves. The industry must turn to Congress for such a plan. I feel S. 289, the Lead-Zinc Act of 1967, is the plan to insure the health and growth, and consequent stability, of the domestic lead-zinc industry. This legislation would authorize the establishment of quarterly import quotas on lead or zinc metals and ores, when and if needed. These quotas would be triggered by the relationship of metal shipments and the supplies held by domestic primary producers. The quotas would be related to a fixed quota base period for imports of articles manufactured from these metals. The Secretary of the Treasury would administer the quotas.

This legislation recognizes the fact that imports of lead and zinc ores and metal are needed to help supply the U.S. consumer. From past experience, however, we know that when world supply exceeds demand, the surplus seeks the U.S. market; and, as in the past, this results in the closure of lead-zinc operations with a consequent loss of employment and revenue.

Some of our present foreign sources might not always be friendly to this Nation, or their supplies unavailable to us when desperately needed. It is, therefore, necessary that we maintain an adequate segment of our domestic lead-zinc industry, not only for our economy, but also for the Nation's security.

In the interests of the lead-zinc workers, their families, the communities they support and their contribution to the national economy and national security, I respectfully urge your Committee to act favorably on S. 289.

Sincerely yours,

THOMAS S. FOLEY,
Member of Congress.

STATEMENT OF HON. JAMES F. BATTIN, A U.S. REPRESENTATIVE FROM THE STATE OF MONTANA

Mr. Chairman, thank you for allowing me to present a statement expressing my support of legislation which would set a flexible import quota for lead and zinc. I have introduced identical legislation in the House of Representatives, H.R. 2768. My bill calls for import controls to encourage and maintain a healthy domestic mining and smelting industry. This is logical for the economy and defense of our country. Such a plan should be a part of the long-range mineral program sponsored by the Executive Department. Congress has many times asked the Executive for such a program, with no response, and so the industries, individually, have suggested and requested from Congress their own plans and provisions.

With the improved business conditions of the past two years, the lead-zinc industry has now proposed an import quota plan for lead, zinc ores, and metal, that has been considerably liberalized from previous legislative suggestions. The basic feature of this legislation is the proposed application of an import quota for either metal whenever the producers' stocks of lead or zinc reach levels that are considered excessive to the consumers' demands. We know that lead and zinc mining and smelter production is expanding rapidly around the world and the tight supply situation of past years is easing and could readily change to a world surplus that would again invade our markets. This legislation will provide the necessary import controls, when and if needed, and serve as a deterrent to excessive imports until the Executive Department takes proper action on the long-range minerals policy.

The Executive Proclamation providing lead and zinc import quotas was cancelled in October of 1965, leaving no provision for a continuing import control plan. Production and consumption of lead and zinc have been increasing in the United States until 1964 and our Nation should now make plans to encourage the continuous development of our domestic industry. Expansion of production, world-wide, presents the distinct possibility of surplus metal stocks during 1967 and, as in previous years, this surplus will affect our market. It is imperative that a plan be enacted to deter excessive imports of lead and zinc.

I also introduced this legislation in the 89th Congress, H.R. 16662, but time did not permit consideration of this measure, last year. The current bill provides for flexible quota legislation with a five-year term. During this period, quotas from either lead or zinc ores and metal would become effective for a three-year period, if domestic producers' metal stocks reached levels considered excessive as defined in the bill. The quotas would be cancelled if stocks were reduced below normal levels and additional imports were needed. A minimum import quota would be guaranteed.

Thank you for permitting me to submit a statement on this legislation, and I appreciate having the opportunity to express my views to your committee.

Statement of Hon. Wayne N. Aspinall, a U.S. Representative From the State of Colorado, Chairman, House Interior and Insular Affairs Committee

Mr. Chairman and members of the committee, I appreciate the privilege and opportunity to present a statement to this Committee in support of S. 289, a bill to provide for an adequate supply of lead and zinc for consumption in the United States. As you know, I am a sponsor of a similar bill in the House, which is now before the Ways and Means Committee, and which I consider essential to the maintenance of a stable and prosperous lead and zinc industry in my home state of Colorado as well as in the rest of the Nation.

This legislation is an interim program, awaiting the development of a minerals policy. It would authorize the establishment of import quotas on lead and zinc metals and ores when and if needed, and in my opinion is the most liberal plan for limits on imports that has ever been proposed in Congress with support of the domestic industry. I firmly believe that its enactment will serve as an effective deterrent to prevent a surge of unnecessary imports such as history records we experienced in the late 50's.

In my opinion, the lead-zinc industry has been patient in its efforts to achieve a minerals policy that would guarantee an adequate supply of lead and zinc ores and metals that would be available from all sources at reasonable cost. This industry has a long and consistent record with Congress and with the Executive Department in the search for this objective. The lead-zinc industry has consistently based its efforts on the principle that there must be a maintenance of a soundly based domestic lead-zinc mining and smelting industry, adequately encouraged in the exploration for and development of new metal reserves. To this principle, it has given staunch advocacy for a constructive policy of providing domestic lead-zinc consumers with adequate supplies to meet both present and expanded requirements, and a recognition that reasonable quantities of imported lead and zinc are necessary to supplement domestic production.

I should like to briefly outline some of the major actions which have occurred over a long period of years in the lead and zinc mineral policy fields.

As early as 1959, the Committee, of which I have the honor to be Chairman, held hearings on a resolution which I sponsored, calling upon the Executive Branch of the Government to propose a minerals policy designed to foster and encourage maintenance and development of domestic mining, orderly discovery and research to promote effective use of domestic metal and mineral reserves. Congress adopted this resolution, but, to date, no such policy has been forthcoming from the Executive Department. This lack of an executive policy determination has resulted in many interested members in Congress initiating a long series of legislative proposals which would establish such a minerals policy. Thus far, a major policy proposal has not been written into law.

Early in 1965, the lead-zinc industry, as well as many of us in Congress became quite concerned that the lead-zinc import Quota Proclamation of 1958 did not accommodate changes in domestic consumption or the changing ability of foreign nations to supply metals and ores needed by U.S. consumers. The industry recommended a plan to liberalize the quota system and take into account the changes in foreign sources of supply. Measures incorporating the industry proposals were introduced by me and many of my colleagues. During the same year, the Executive Department reviewed the relationship of the Quota Proclamation to conditions in the industry. Following a Tariff Commission investigation of the lead-zinc situation, the industry strongly urged the Executive Branch not to abandon the quotas, even though they were cumbersome, until a comprehensive minerals policy had been adopted. Despite this plea, the quota proclamation was terminated in October 1965 and no provision was made for a continuing lead-zinc mineral policy. Legislation pending in Congress was then re-evaluated and as a result, my bill H.R. 51, and S. 289 were introduced in the present Congress.

The history of lead and zinc mining, both in the United States and in my own State of Colorado, has been very much like a yo-yo—up and down, depending upon the nature of the serious crisis that was faced at the time. We have witnessed both feast and famine. We have seen excessive metal stocks accumulated, unprofitable price levels, and reduced mine and smelter production. We have seen increased consumption encourage the re-opening of mines, the development and production from new ore resources and the expansion of mining and smelting facilities. This up and down action should be replaced by stability.

Let's take a look at the current situation. Work stoppages in the steel industry have idled 42% of the Nation's lead refinery capacity and about 80% of its lead smelting capacity. Slab zinc production is off approximately 25% due to the stoppages. The existing work stoppage in the automobile industry has been estimated to mean a sharp curtailment in the use of zinc both in die cast and galvanized sheet form. The idling of capacity and the drop in usage have been accompanied by cuts in the price for both metals, which heretofore had remained at relatively stable levels. These factors presage a possible warning of another depressed period in the life of the industry. There are growing signs that world production might soon create another surplus situation that could force the industry into another period of depression. This is supported by the fact that our imports have increased since the quotas were removed. Particularly significant is the fact that in 1967, imports of zinc are running at an alarming rate of 75% of consumption, exceeding the import rate of the 1950's which had such a severe depressing effect upon domestic industry. I believe that prompt Congressional action now is absolutely necessary if we are to head off another crisis in our domestic lead-zinc industry.

I consider the flexible quota system provided in S. 289 and H.R. 51, to provide both a fair and effective interim solution, pending adoption of a sound, long range mineral policy. I do not believe that we should sit back and wait to act merely because the Executive Department continues to re-state its position that such proposals are counter to the international trade policy of the United States. The lead-zinc industry is tired of running the gamut of proposals for barter, stockpile purchases and disposals and countless Tariff Commission hearings with noneffective findings because of the inadequacies of the law to fully protect domestic industries. Any immediate mineral policy for the lead-zinc industry will be by action of Congress and I believe that enactment of the legislation pending before this Committee will be a sound step forward to stability in the lead-zinc industry for the immediate future.

I urge prompt approval by this Committee of the pending bill.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C.

Hon. RUSSELL B. LONG,
Chairman, Senate Finance Committee,
U.S. Senate, Washington, D.C.

DEAR SENATOR LONG: I would like to urge favorable action on S. 289, the Lead and Zinc Act of 1967. It is my opinion that this bill is vital to the preservation of a healthy, stable domestic lead-zinc industry.

Montana is one of the leading producers and processors of both lead and zinc in the United States. However, adverse market conditions and other economic factors have continued to keep the mining and treating of both metals below normal levels.

Lead and zinc deposits, mostly in my district, are widely scattered, and a number of small mining operations produce limited amounts of both metals, usually in conjunction with silver or other types of mining. The marginal nature of these operations makes them highly dependent upon market conditions. For example, the major producer of both lead and zinc is The Anaconda Company's properties in the Butte area. In 1957 these mines produced 74% of the State's zinc and 79% of its lead. Lead and zinc mining was stopped in the Butte area in 1960 and 1961. Mining was resumed in 1962, but substantially below the operations that were maintained ten years previously. In January of this year, the Anaconda Company stopped its zinc mining operations in Montana, as they were becoming uneconomic even at the then current price of 14½ cents per pound. Other producers in the State have experienced the same operating difficulties during recent years with intermittent shutdowns resulting in a loss of revenue and jobs throughout the State.

When our market is flooded with imports, the domestic price of these two metals drops, mines close and jobs and revenue are lost. 1966 and 1967 imports of lead and zinc show a substantial increase. During 1966, there was an 18% increase in imports of lead ore and a 31% increase in imports of lead metal. For zinc, the figures were a 22% increase for ores and an 82% increase for metal. Total lead imports of ore and metal in the period of January through August of this year have increased 26% over the comparable 1966 period. Zinc imports for this period of 1967 increased 18% over the same period of 1966.

As proven in the past, these unneeded and excessive imports cause adverse market conditions for the lead and zinc industry. The loss in employment and revenue is felt sharply by each segment of the Country where lead and zinc operations help support the economy. The industry needs the assurance of a share of *their* market, S. 289 is this assurance.

Sincerely,

ARNOLD OLSEN,
Member of Congress.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C.

HON. RUSSELL B. LONG,
Chairman, Senate Finance Committee,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: I would like to urge favorable action on S. 289, the Lead and Zinc Act of 1967. This bill is designed to stabilize the domestic lead-zinc industry by allowing the industry to maintain a reasonable level of production and to expand output on a competitive basis. I feel this is necessary for the Nation's security and economic growth.

My home state Tennessee is the largest zinc mining state in the country. This position is a result of developments since 1955 when Tennessee produced 40,216 tons of recoverable zinc. In that year it ranked sixth in size. In 1965 mine production of recoverable zinc was 123,000 tons and represented some 20% of the total U.S. production. This increase in zinc ore output in Tennessee is due to favorable market conditions which encouraged extensive exploration, the discovery of new ore bodies, and their development into efficient mines. In 1965 these Tennessee operations provided employment for more than 1,500 men and an annual payroll in excess of $5,000,000. These jobs and revenue must be protected.

In spite of all the favorable activities, the zinc mining industry in Tennessee has experienced serious setbacks resulting from depressed metal prices. The domestic lead-zinc industry has for years suffered from a continual vacillation from prosperity to poverty. The cycle is simple and repeating. When consumption of these metals rises, production is stepped-up all around the world, and there soon occurs a world surplus which results in heavy importation of lead and zinc into the more favorable U.S. market. This depresses our own industry by lowering the domestic price. The industry must, of course, close down unprofitable operations, and this results in job losses and a loss of revenue to the district, state and Nation. When there is no longer a surplus or a national emergency occurs and increased domestic production is needed, time is required to re-open closed mines, smelters and refineries. These operations are not overnight occurrences.

During the period of 1958 to 1963, the lead-zinc industry experienced excessive metal stocks, low prices, and a greatly reduced mining and smeltering production. The direct cause of this condition was a flood of lead and zinc imports from foreign sources. The industry has been slowly recovering from this period; however, the signs of depression are with us again. There is a world surplus of these metals, and they are finding our market. The imports of lead during 1966 were about 25% greater than in 1965, while the imports of zinc increased over 35% during the same period.

In the past the policy has been to respond to a crisis in this industry after it has occurred. S. 289 would prevent the crisis.

Sincerely yours,

JOHN J. DUNCAN,
Member of Congress.

STATEMENT OF HON. HAROLD T. (BIZZ) JOHNSON, A U.S. REPRESENTATIVE FROM THE STATE OF CALIFORNIA

Mr. Chairman, I appreciate your courtesy in allowing me to testify in support of S. 289, the Lead and Zinc Act of 1967. I have long been concerned about this problem and introduced a similar bill on the opening day of the 90th Congress on the House side. It is H.R. 57.

I feel it is imperative that immediate action be taken to protect our domestic lead and zinc industry. Unneeded imports which reach our market depress the domestic price, which, in turn, results in the closing of lead-zinc operations and a subsequent loss of jobs and revenue. World surpluses of lead and zinc have in the past and will continue to seek and find the U.S. market, and then the vicious cycle has begun.

The Second Congressional District of California, which I have the honor to represent, and the State itself have been a victim of the feast and famine periods of the industry. During World War II and the Korean Emergency, a fairly substantial number of mines were brought into operation in my District. These mines contributed a great deal of wealth and employment for segments of the California economy.

May I bring to the Committee's attention some statistics I believe they will find of interest? When lead prices began to drop below 16¢ during 1957, the mines began to close until only four in the State were listed as active lead-zinc mining operations in 1964. From 1948 through 1956, California produced approximately 1.4 percent of the United States' domestic zinc production, and approximately 2.6 percent of the United States' domestic lead production. Today's production is practically nil compared with that of the early 1950's. From 1951 through 1956, the value of California's zinc production averaged approximately $2,000,000 per year, and the value of lead production averaged approximately $2,800,000. In 1965 the total value of both metals was less than $2,000,000. Nine mines in three counties yielded all the recoverable zinc from the State in 1965. Over 97 percent of the output came from ores mined in Inyo County in my Congressional District, and more than 99 percent of the State's lead production came from this County, one of the nineteen counties which make up the Second Congressional District.

California's lead-zinc mines played an important part in supplying the Nation's needs for metal during World War I and World War II and the Korean Emergency. Since this time, the industry in the State has declined to minor productions in small quantities. If such an emergency were to arise again, it would take a considerable length of time for the industry in California to recover, and again be able to assist the Country in supplying these vital metals.

The closing of the lead-zinc mines has cost California millions of dollars in wages, tax revenue, foreign revenue and community support.

Mr. Chairman, this is a tragic loss of new wealth that cannot be made up through other means.

A slight measure of protection, such as offered in S. 289 which the Committee is considering today, would insure preservation of our remaining segment of the lead-zinc industry, prevent further closures and encourage exploration and development leading to a more healthy, stable industry.

I would like to point out in conclusion, Mr. Chairman, that this is important, not only to California's economy, but to the Nation's economy and security.

Thank you.

Statement of Hon. Walter S. Baring, a U.S. Representative From the State of Nevada in Behalf of S. 289, Lead-Zinc Stabilization Bill

Mr. Chairman, I thank you for the opportunity to submit a statement on behalf of S. 289 under discussion today. I have introduced a similar bill in the House, H.R. 53, and I feel that it is extremely important that this legislation before the Committee today receive favorable consideration.

This bill is one that would be fair to the producer, consumer, and importer alike and would only be in effect when found necessary to stabilize the supply consumption ratio at proper levels.

The flexible quota system proposed in the legislation before this Committee is fair and is a most effective possible solution pending adoption of a sound, longer-range minerals policy.

It is a known fact that production of lead and zinc has been increasing on a world-wide basis, and there is a very strong possibility that the surplus will seek American markets. Therefore, it is imperative that we have a reasonable import quota plan, and the legislation before the Committee today provided such an import quota plan.

During the past dozen years, the domestic lead and zinc industry has proposed many plans which would lead to a mineral policy for this country, but these plans have failed to produce favorable action by the executive department. The legislation before the Committee today will certainly stave off what we have gone through in the past, when we waited until a serious crisis hit the industry, then we turned to some emergency program to pull the industry through.

A prosperous and stable lead-zinc industry is important to our nation. Let's be prepared and head off any future crisis in the lead-zinc industry before it can develop. And the Committee can do just that by giving its approval to the legislation being discussed here today. Thank you.

Statement of the Southwestern Montana Mining Association, William Hand, Vice President on Import Quota Legislation on Lead and Zinc

Association objective:

(1) To provide reasonable price stabilization for the two metals.

(2) Thereby avoiding the intolerably low prices.

(3) To streamline the Tariff Commission's functions

(a) So that relief can be had before it is too late.

1. Thereby avoiding the almost complete collapse as witnessed from 1956 to 1963.

Association recognizes that:

(1) This Country may not produce sufficient Lead and Zinc to satisfy our needs at reasonable prices.

(2) That we must trade with other countries and Lead and Zinc should be imported.

(3) In the public's interest, our Country must produdce a reasonable quantity of the metals.

(a) Therefore, we must make the industry attractive for production and for exploration.

The objective of this association is primarily to add reasonable stabilization to the price structure of these two metals. While we appreciate that price fluctuations will occurr as a matter of supply and demand, we would like to convey to you that unreasonably low prices over an extended time causes hardships that may take as long as five or ten years to recover from.

It is felt that the Tariff Commission's functions must be streamlined so that they can react to the situation in time to do some good and not after it is too late as was the case in the six (6) year period from 1958 to 1962.

It is recognized that some of our members qualify for the "Lead Zinc Stabilization Program" for which we are very fortunate. But we realize that this may not be extended indefinitely.

Further, we appreciate that this Country has a balance of payments deficit and that we must trade and attempt to expand our exports. Also, that we do not, as a Nation, produce sufficient lead and zinc to supply our needs. And certainly we can not at attractive consumer prices. So we do not advocate the termination of imports.

However, we feel that in the Public's interest this Country must produce a good share of what it consumes and so the industry must be kept healthy in both production and exploration.

DILLON, MONT.

Hon. RUSSELL B. LONG,
Senate Finance Committee,
Washington, D.C.:

We endorse S. 289 wholeheartedly since it would add a measure of stability to the price of lead and zinc. Wide price variations have seriously injured the small lead and zinc mines.

SOUTHWESTERN MONTANA MINING ASSOCIATION,
LEONARD LIVELY, *President.*

MINING ASSOCIATION OF MONTANA,
Butte, Montana.

Hon. RUSSELL B. LONG,
Chairman, Senate Finance Committee,
Washington, D.C.

DEAR SENATOR: The Montana Mining Association would like to go on record in support of S. 289, the Lead Zinc Act of 1967.

The lead-zinc industry in Montana is in a very depressed position today and we feel that without the protection that S. 289 will give it the only thing that this part of our mining industry in Montana will have to look forward to is a complete closing down.

We urge your support and others on the committee to help protect the remaining lead-zinc industry we have left in the State of Montana.

Yours very truly,

PETER J. ANTONIOLI,
Secretary-Manager.

CITIZENS COMMITTEE FOR STABILIZATION LEAD-ZINC INDUSTRY,
Flat River, Mo.

Hon. RUSSELL B. LONG,
Chairman, Senate Finance Committee,
Washington, D.C.

DEAR SENATOR: During the past 13 years this committee has directed numerous letters to members of the Congress urging legislation to protect the domestic lead-zinc industry. In that period, several bills have been introduced and each has been studied as to the effect it may have on this and other mining areas. It is our opinion that S. 289, "a bill to protect the domestic economy, to promote the general welfare, and to assist in the national defense providing for an adequate supply of lead and zinc for consumption in the United States from domestic and foreign sources and for other purposes," will come closer to the objective than any recent proposed legislation.

Senator Anderson and the members who are co-sponsors are familiar with the problem of areas such as ours. This, the largest lead producing area in the nation, has suffered ups and downs including the largest percentage of population loss than any area in Missouri.

Our country must import both lead and zinc. When the new mines of this area come on stream within the next two or three years, the demand for imported metals will be reduced. We are aware of the delicate balance of export-import necessary for the good of our economy. Import quotas seem to be the fairest and most equitable manner of preventing the boom and bust cycle of many of our basic producers.

We whole heartedly support the principles of S. 289 and are making known our feelings to other members of the Congress.

Sincerely yours,

T. J. WATKINS, *Chairman.*

THE NEW JERSEY ZINC CO.,
Gilman, Colo.

Senate bill 289.

Hon. RUSSELL B. LONG,
Chairman, Senate Finance Committee,
Senate Office Building
Washington, D.C.

DEAR MR. CHAIRMAN: The Executive Committee of the Colorado Mining Association has reviewed S. 289, the Lead-Zinc Act of 1967, and Report No. 218 on Lead-Zinc Industry Stabilization. We wish to add our support to S. 289 which we believe will contribute much to the stabilization of the domestic lead-zinc industry. Such stability is essential to the security and economic growth of our nation.

We further believe that the proposed legislation will assist in the world-wide stabilization of the lead-zinc industry and will assure the smelters and refiners the opportunity to maintain their operations with continued friendly association with exporting nations.

Your favorable consideration of S. 289 is requested.

Very truly yours,

A. L. HAYES,
Chairman, Lead-Zinc Committee, Colorado Mining Association.

PLATTEVILLE, WIS.

Senator RUSSELL B. LONG,
Senate Office Building,
Washington, D.C.:

The zinc and lead operators of this area urge support of your committee of S. 289 as the only means of protecting the industry in Wisconsin, Illinois, and Iowa.

WISCONSIN, ILLINOIS, AND IOWA ZINC & LEAD PRODUCERS ASSOCIATION,
W. ROY KOPP,
Platteville, Wis., Council.

DETROIT, MICH.

Hon. RUSSELL LONG,
Chairman, Finance Committee,
U.S. Senate, Washington, D.C.:

As an officer of a small American business using zinc metal I strongly object to bill S. 289. It is intended to hand over to the few large producers in the United States virtually complete monopoly of the zinc market.

Sincerely,

ACME METAL CO.,
DAVID STERNS.

ROCKVILLE, MD.

HON. RUSSELL B. LONG,
Chairman, Committee on Finance,
U.S. Senate Office Building,
Washington, D.C.

The Independent Zinc Alloyers Association are amongst the largest consumers of special high-grade slab zinc in the United States and so approximately 50% of all zinc alloys marketed in this country.

With reference to the current hearings before the Committee on Finance of the U.S. Senate, we respectfully wish to indicate for the record of this hearing the support of the association for the statement of the honorable Stewart L. Udall, Secretary of the Interior before your committee on Wednesday October 18. Specifically, we support Secretary Udall's statement that under S. 289 "the control of imports would be determined by industry action rather than by competitive actions in the market place".

Further, we invite your attention to the statement of Mr. Clark L. Wilson before your committee on October 19, and his supplemental remarks to the effect that a $38 million inventory would be required to trigger zinc quotas under S. 289. Currently published figures indicate there is approximately $25 million in zinc metal inventory in this country today. Under relatively normal market conditions a $38 million zinc metal inventory including metal in bonded warehouses would not be abnormal. Furthermore, an inventory of $38 million in zinc ore would probably be less than a 2-month supply and wholly inadequate for normal production requirements.

In the current market the inventory of zinc metal is declining and metal imports are lower this year than last year, whereas the imports and inventory of zinc ore is escalating. This condition is the result of actions by and therefore favors 7 or 8 companies in the United States which produce zinc metal from zinc ore and also produce zinc alloys in competition with members of our association.

Quotas under S. 289 triggered by inventories held by the zinc-producing companies rather than by market conditions clearly would favor these companies. They would benefit from high inventories of zinc ore, readily convertible to zinc metal and for use in their own alloying operations, while independent zinc alloyers without the capability of processing ore and dependent upon these same ore converting companies and upon import metal for supplies would face metal shortages.

The IZAA is opposed to S. 289 because its members feel the remedies delineated in the bill may too readily become an instrumentality for control of the zinc market by a few large companies.

RICHARD J. BAUER,
President, Care Eastern Alloys, Inc., Maybrook, N.Y.

UTAH MINING ASSOCIATION,
Salt Lake City, Utah.

HON. RUSSELL B. LONG,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SENATOR LONG: The Utah Mining Association firmly supports S. 289, the the Lead-Zinc Act of 1967. We are pleased that your committee is holding hearings on the matter at this time, and we sincerely urge favorable consideration of the bill.

The domestic lead-zinc mining industry has had brief relief from the damaging effects of the excessive imports which prevailed from 1952 through the early 1960s. Most of the small, independently operated mines were forced out of business during that period. Most of the major operators were able to hang on by the "Skin of their teeth" through support from other segments of their business or by drawing on capital to sustain operating losses.

Present conditions indicate a trend of increased imports, lowering prices and return to distressing economics of operations. Witnesses at the hearings will review details of that trend, so the discussion will not be repeated in our letter.

As chairman of the Emergency Lead-Zinc Committee in 1959–1960, I presented a statement before the United States Tariff Commission on January 12, 1960, pursuant to Senate Resolution No. 162, 86th Congress, First Session, 1959. I would like to present a summary of the distressing conditions prevailing in the domestic lead-zinc industry at that time in the areas of domestic production, imports and metal prices:

	1947-49 (average)	1953	1957	1958
Domestic mine production of lead and zinc (short tons):				
Lead	395,000	342,600	333,500	267,400
Zinc	620,000	547,000	520,000	412,000
Imports for consumption, unmanufactured lead and zinc:				
Lead	324,333	457,000	575,000	593,000
Zinc	325,000	898,000	951,000	726,000
Prices, lead and zinc (cents per pound):				
Lead	16.023	13.489	14.66	12.109
Zinc	12.078	10.855	11.399	10.309

On September 22, 1958, President Eisenhower announced the imposition of import quotas on lead and zinc, effective October 1 1958. They were helpful to the extent that they slowed the import flood but have since been removed. The quotas were ineffective for several years in reducing surplus lead and zinc on domestic markets, as is evidenced by the fact that the price of lead drifted downward to a low of 9.631¢ in 1962 while zinc gained only about 1¢ in price by that time.

During the above cited period of distress, initiated by unlimited imports, the Trade Agreements Act provided for relief from such distress in the "Escape Clause." The 1958 "quotas," rescinded by presidential proclamation October 22nd, 1965, were imposed in lieu of duty increases recommended by the Tariff Commission in several previous hearings on the problem. The "Escape Clause" was deleted in later enacted trade agreement legislation.

Thus the Domestic Lead-Zinc Mining Industry faces possible repetition of the 1950 to early 1960 distress conditions without the meager protection furnished by the quotas imposed in 1958 or the Escape Clause actions provided for in previous trade agreement law.

Again, we appeal for serious consideration of S. 289 as a means of affording the lead-zinc mining industry reasonable protection from excessive imports when they should materialize.

Sincerely yours,

MILES P. ROMNEY, *Manager.*

Airmail

STATEMENT OF THE MINING ASSOCIATION OF CANADA, RE BILL S. 289, THE LEAD-ZINC STABILIZATION BILL, SUBMITTED BY V. C. WANSBROUGH, VICE-PRESIDENT AND MANAGING DIRECTOR

Honorable Sir: The Mining Association of Canada, representing the mining and smelting industry on a national scale, greatly appreciates the opportunity of presenting, on behalf of the Canadian lead and zinc producing industry its views on Senate Bill 289, the Lead-Zinc Stabilization Bill.

1. *Canada's Interest:* Canada's lead and zinc producing industry is deeply concerned by the legislation proposed in Senate Bill 289.

The United States is the world's largest single consumer of these metals, while Canada is the world's largest supplier of mined zinc and, in the Free World, the third largest producer of mined lead. Canada has traditionally been the principal outside source of supply of zinc and a major supplier of lead to the United States market.

2. The United States market requires and has always required substantial imports of these metals to meet its needs. In 1966 imports accounted for 50%

of zinc consumption and 33% of lead consumption. In that year Canada supplied 56% of total United States imports of zinc and 20% of total United States imports of lead.

Growing United States requirements since 1960 have called increasingly on Canadian sources of supply, and this has been a significant factor in the development of large new Canadian lead and zinc mine and metal production, by both Canadian and United States interests.

3. In the last few years conditions in the Free World lead and zinc industry have completely changed. On a world-wide scale, much greater stability has been achieved and is being maintained. The industry has strengthened its international organizations for research, development and promotion of lead and zinc. These developments, along with the action of many producers to avoid excess stocks by production cutbacks, will continue to help in balancing supply and demand in the interests of greater market stability and a reasonable level of prices.

There is a much better understanding by the industry today of the factors which caused violent price fluctuations in the past and a greater awareness on the part of producers of their ability to control these factors and of their responsibility for maintaining conditions of reasonable market stability. Canadian producers have been very much aware of their responsibilities in this regard and have acted accordingly. The Canadian industry has not contributed and will not contribute to instability in the United States market.

4. In the light of these positive efforts, the adoption of Senate Bill 289 would be a retrograde step. We believe that the legislation proposed would lead to the following undesirable results.

5. United States consumers of lead and zinc, metal and concentrates, would be denied the security of regular and continuing supplies from the logical and well-established Canadian sources on which they have traditionally relied.

6. The immediate effect of imposing a quota system by the United States by diverting substantial supplies to other markets, would be to exaggerate the imbalance in those markets, leading to depressed prices and a new cycle of worldwide instability.

7. Experience indicates that the United States could not by the imposition of a quota system insulate itself against such world conditions. This was evident during the years when the former quota system was in effect.

8. New trade patterns would be established outside the United States, and supplies would not be readily available to United States consumers when they needed them.

9. Canada is the major trading partner of the United States and its best customer. Canada experiences a heavy annual deficit of merchandise trade with the United States. Of recent years, this has amounted to approximately $1 billion annually. This adverse balance would be aggravated by the proposed legislation, which seeks to restrict access to the United States market of the products of a major Canadian resource industry and would in turn impair Canadian ability to purchase United States goods.

10. Restrictive trade action by the United States such as is contemplated in Bill 289 would represent a disturbing departure from the positive contribution made by the United States to the success of the Kennedy Round agreements, and could have adverse repercussions on world trade, going well beyond the lead and zinc sector.

We appreciate that the Bill under consideration represents on behalf of its sponsors a sincere attempt to safeguard the interests of an important United States industry.

We sincerely trust, however, that, in assessing its effects, its international implications will not be lightly dismissed or ignored. We earnestly hope that no action will be taken which could have injurious consequences for the lead and zinc industry on a world-wide scale, and for the major trading partners of the United States, among which Canada holds the most prominent place.

On behalf of the Canadian lead and zinc producing industry, we wish to register our firm opposition to any new restrictions on imports of these metals into the United States.

HENNING BROS. & SMITH, INC.,
Brooklyn, N.Y.

Hon. RUSSELL LONG,
Chairman, Senate Finance Committee,
U.S. Senate, Washington, D.C.

DEAR SENATOR LONG: I respectfully request to make a statement concerning the proposal regarding quota restrictions on Lead–Zinc.

Henning Bros. & Smith is an independent alloyer of zinc-base die casting alloy, the principal raw material of which is Special High Grade Zinc. It is on this metal that I would like to focus my attention. During 1964 and 1965, Henning Bros. & Smith was severely curtailed in its supply of its most important raw material, Special High Grade Zinc. During that time there were quota restrictions on that metal. My company suffered a serious loss of sales due to its inability to obtain a sufficient supply of Special High Grade Zinc from the domestic producers. All of the producers and importers of this metal with the exception of one importer cut supply of this basic raw material to us by at least 50%. My records and experiences have shown that restriction of a raw material does not work. The law of supply and demand is a very strong and valid law in my opinion.

The United States of America was founded and its ideologies are based on the premise of free enterprise. How can we, as independent alloyers, operate freely when we face the probability (as we did before) of not being able to purchase sufficient raw materials to maintain our position in our industry.

The majority of the United States producers of Special High Grade Zinc are also producers of zinc-based die casting alloys. Therefore, they are in direct competition with the independent alloyer, such as we at Henning Bros. & Smith. When the Special High Grade Zinc supply becomes tight because of increases in the zinc die casting industry will the producer in the United States sell my company more Special High Grade Zinc, or will he decide to produce more die casting alloy? I believe the question answers itself.

I am a firm believer in protection for American industry. Henning Bros. & Smith, Inc. is a 100% American industry. Where in this bill proposed today is the protection for my industry? If we are allowed free access to all channels of supply for our raw materials, we will be able to survive spot situations such as occurred during 1964 and 1965.

I must oppose any quota arrangement which restricts my company from access to all sources of raw material. There must be equity and fairness to *all*. Quota limits are cumbersome and do not provide the mechanics to aid a supply situation at the time of need.

Thank you for the courtesy of submitting our objection to quotas on lead-zinc, most specifically Special High Grade Zinc.

Very truly yours,

GUSTAV E. HENNING.

IDAHO MINING ASSOCIATION,
Boise, Idaho.

Hon. RUSSELL B. LONG,
Chairman, Senate Finance Committee,
New Senate Office Building, Washington, D.C.

DEAR SENATOR LONG: As representative of a major segment of our nation's lead and zinc producing industry, the Idaho Mining Association strongly supports and urges the enactment of S. 289, the Lead-Zinc Act of 1967.

This legislation is extremely important to the economic stability of Idaho's mining industry and to the welfare of our state, particularly those areas which depend almost entirely upon mining for their economic support.

Idaho ranks second in the nation in production of lead and among the top three in production of zinc. Mining is our third most important industry in terms of value of production.

During the past two years, since termination of the Presidential Lead-Zinc Quota Proclamation in October, 1965, we have witnessed an alarming increase in imports of both lead and zinc. Last year lead imports were about 25 per cent above the 1965 rate and zinc imports were more than 30 per cent higher. Figures for the first seven months of this year indicate that the flood of foreign production into our markets is continuing unabated.

It is obvious that excess world supplies are again seeking and finding an outlet in the domestic market. Lower foreign prices have exerted and are continuing to exert heavy pressure on the domestic price. Since the fixed quotes were lifted the price of lead in this country has declined from 16¢ to 14¢ a pound and zinc has slipped from 14½¢ to 13½¢.

The situation today is disturbingly reminiscent of the 1950's when the domestic lead-zinc industry was literally driven to the wall by the adverse impact of excessive imports, while endeavoring over more than a decade to utilize any and every administrative remedy that was supposedly available.

The experience of those dark years is still fresh in our memory. We are again faced with a threat of serious injury from uncontrolled imports and we do not feel we can or should be asked to rely on verbal assurances, however sincere, that adequate administrative remedies are available and will be used expeditiously and effectively.

It is our firm conviction that the legislative remedy provided in S. 289 is not only desirable but extremely necessary to the continued welfare and stability of the domestic lead-zinc mining industry. We earnestly solicit your support of this bill both in the Senate Finance Committee and on the floor of the Senate.

We respectfully request that this letter be incorporated into the record of the hearing on import quotas now underway before the Senate Finance Committee.

Respectfully submitted.

A. J. TESKE, *Secretary.*

NEVADA MINING ASSOCIATION, INC.,
Reno, Nev.

Subject: S. 289, the Lead-Zinc Act of 1967.

Hon. RUSSELL B. LONG,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SENATOR LONG: Nevada Mining Association endorses and urges favorable consideration of S. 289 as a moderate control over imports to stabilize domestic production of lead and zinc and, thereby, prevent to some degree disastrous fluctuations that have repeatedly disrupted operations and depressed the economy of communities dependent thereon.

The writer's experience as a mining engineer and mine operator over a period of more than 35 years has been in production of complex lead-zinc ores of Nevada, California, and Utah. During this period, I have closely observed the effect of Government policies that have repeatedly failed to prevent violent price fluctuations.

We urge the Congress to adopt a measure which will help stabilize the domestic lead-zinc industry and dependent communities.

Respectfully yours,

PAUL GEMMILL.

ROLLED ZINC MANUFACTURERS ASSOCIATION, INC.,
Washington, D.C.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This is submitted in connection with the Committee's hearings and investigation involving unfair import competition.

It is requested that this communication be made an official part of the record of the Committee and printed in the hearings.

The Rolled Zinc Manufacturers Association consists of the six United States manufacturers of rolled zinc products for sale. Rolled zinc consists of zinc in sheets, strip zinc, plates (including engraver plates), rod, and wire. The domestic rolled zinc industry is one which has suffered greatly from imports, particularly imports from communist Yugoslavia.

Imports of zinc in sheets from Yugoslavia have resulted in critical injury to the domestic zinc sheet manufacturing industry. In 1952 imports of zinc in sheets constituted a quantity equivalent to only one per cent of domestic industry production. Imports then increased continuously. Ten years later, for 1962, imports of zinc in sheets were equivalent to 48 per cent of domestic production. With this critical situation, domestic manufacturers of zinc in sheets were reduced to two in number, and since 1962 only two United States manufacturers produce zinc in sheets. With only two companies still in the business today, it is not feasible to continue to assemble domestic industry statistics without revealing individual company statistics; but we are convinced that imports today which are primarily from Yugoslavia account for half or more of the United States market for zinc in sheets, even though in 1952 imports accounted for a quantity equivalent to only one per cent of domestic industry production.

The 1965 average hourly earnings in the United States rolled zinc industry, aside from fringe benefits, were $2.77. This compares to a Yugoslavian wage in 1965 of only 27 cents per hour which prevailed in the nonferrous metal manufacturing industries. Thus, our wages are approximately ten times the wages paid by our principal foreign competitor, which is Yugoslavia. While we have been critically injured by imports of zinc in sheets, we would like to preserve what market we have left for zinc in sheets; and this may be done only by an import quota.

The rolled zinc item of largest manufacture is strip zinc. Because of more import duty protection, we had been more nearly able to compete with imports until 1966. Now that foreign suppliers have made major inroads in the market for zinc in sheets, they are proceeding rapidly to capture the strip zinc market.

Prior to 1965 imports of strip zinc were minor. They were still minor in 1965 when only 14,452 pounds were imported with a value of $4,335. However, for 1966 imports had increased from 14,452 pounds with a value of $4,335 to 649,027 pounds with a value of $188,834. The domestic strip zinc industry will go the way of the domestic zinc in sheets industry we are fearful unless we obtain an import quota on strip zinc. In the case of strip zinc, the principal foreign competition is of United Kingdom origin.

Also, we are very much concerned regarding imports of zinc wire as well as other rolled zinc products and have been concerned that our Government has been willing to permit this serious injury to the domestic rolled zinc industry.

Provisions in S. 289 as reported favorably by the Senate Interior and Insular Affairs Committee on May 4, 1967, would deal constructively with the matter. Title III of this bill would impose quotas on the various rolled zinc products under certain conditions when quotas are in effect on zinc metal.

We are pleased that the Committee now is turning its attention to the consideration of this problem. In addition to the serious problem already confronting the domestic rolled zinc industry, even a greater problem would occur if quotas should be placed on zinc metal without quotas also being placed on rolled zinc products.

Since the Interior and Insular Affairs Committee acted unanimously in reporting S. 289, there has been another development of tremendous significance. *In the recently concluded Kennedy Round of International Tariff Negotiations, every single rolled zinc product category was negotiated for a full 50 per cent tariff reduction.* To us, this is an action defying understanding and explanation and representing the height of administrative irresponsibility and abuse of discretionary authority. The administrative authorities did not exhibit temperance, restraint, or responsible administrative discretion. It is our contention, therefore, that Congress has no choice but to intervene in the matter.

Under the circumstances, we believe that quotas provide the most logical answer. Rolled zinc import quotas would enable foreign suppliers to maintain sales in the United States market, and also to enable them to make substantially more money by such sales because of the lower import duties which will commence to take effect within a few months. With foreign suppliers able to increase substantially profits on their current substantial share of the United States rolled zinc market, there would be no bona fide basis for objection on their part to import quotas.

Our industry has been patient while the industry has been injured, and we have experienced volume decline and profit decline and elimination. We now hear it urged that the import problem be considered as separate legislation. We have waited patiently for years to have the problem considered as separate legislation. Since it has not occurred, we maintain and urge that the only reasonable approach is to add amendments to the Social Security Bill, H.R. 12080, dealing with the import competition problem. To this end we urge the quota approach, and concerning rolled zinc products, we urge the adoption of the provisions of Title III of S. 289.

Respectfully submitted.

JAMES E. MACK.

STATEMENT OF AMETALCO, INC., SUBMITTED BY JOHN J. LENNON, EXECUTIVE VICE PRESIDENT, IN OPPOSITION TO THE PROPOSED LEAD-ZINC ACT OF 1967, S. 289

Ametalco Inc. is a New York corporation engaged in marketing metal and mineral products from domestic and foreign sources chiefly as sales agents in all important industrial countries of the world. Our sales represent a substantial portion of the lead and zinc consumed in the United States. It is our understanding that this committee is considering among other proposals a bill, S. 289, known as the "Lead and Zinc Act of 1967."

The provisions of S. 289 briefly are that under certain conditions which might arise in the future, namely, an increase in stocks of lead and zinc' held by producers in the United States, import quotas would be established according to the formula given in the proposed law. This makes a judgment of injury to the domestic producing industry without determining whether in fact injury occurs. Previously proposed quota legislation for these metals has been rooted in the same questionable assumption.

Quotas for lead and zinc are not unknown to this industry—miner, smelter, consumer, importer and foreign supplier. A system of quotas proclaimed by President Eisenhower was in effect from October 1, 1958 until removed by President Johnson in October, 1965. Prior to October, 1958 and during the years following, much testimony was given before the Tariff Commission by representatives of all sectors of industry. Nothing in the record of those years makes it possible to determine from available data the effect of quota restrictions as distinguished from other factors on domestic prices and income of producers of lead and zinc, nor upon mine production, smelter output and domestic consumption.

Whatever may have been the benefit of the quota restrictions during that period, they had other effects that were harmful because of their inherent rigidity. The result was a serious disruption of normal business operations. If the proposed quota system were now in effect while important segments of the domestic producing industry have been struck for three months, there would be no quick relief for consumers from additional supplies available in the market place.

It is clear from the reports of the Tariff Commission and other evidence presented by leading industry sources that quotas were not a measurable factor either in increasing the prices for lead and zinc or preventing them from declining. The truth is that it is primarily the changes in industrial activity both here and abroad especially as they affect the demand for durable goods that determine the market for these metals. There is no magic device in the form of quotas or other import restrictions that can insulate the domestic industry from the effects of such changes short of measures so severe as to result in stifling mining and smelting operations.

The recent temporary decline in domestic consumption of both metals magnifies the effects of the rise in imports. It is not in the best interest of this country and the lead-zinc industry to impose restrictions on imports every time there is a cyclical downturn in consumption. Anyone familiar with the industry believes that lead and zinc consumption will expand in the years to come, provided the industry maintains and preferably enhances its present programs to improve its competitive posture by aggressive research and market development on an international scale. It is in positive, dynamic individual company and organized group effort that the future of lead and zinc is best directed. In our view, any restriction to supply is likely to hinder the anticipated growth in consumption and to result in creating a permanent problem.

Far from serving any useful purpose, we believe that quota restrictions are a distinct burden to industry. When availability is threatened, industrial consumers increasingly look for suitable substitutes. The fear nurtured by the uncertainty that at some future date quotas might again be suddenly instituted may cause important consuming industries to doubt once again that adequate supplies of zinc and lead will be available at reasonable prices and hence intensify the search for substitutes.

Another pertinent question is whether restrictive or protectionist measures such as import quotas achieve the stated purposes of the proposed bill. A liberal trade policy that includes avoiding such measures is in the best economic and security interest of this country. It has been the official policy of the United States for the past number of years to seek an expansion of foreign trade with all countries of the world.

The Trade Expansion Act of 1962 passed by the Congress has the purpose of stimulating economic growth and enlarging foreign markets for U.S. products through the development of nondiscriminatory trade. This was the basis of our participation in the Kennedy Round of tariff negotiations. Lead and zinc were exempt from negotiation. Since lead and zinc have already been given protection from tariff reduction, any further effort to hinder trade in these commodities is directly contrary to this country's obligations as stated by the President and the Congress and agreed to in the recent GATT negotiations.

Expansion of foreign trade is a worthwhile objective for it is the surest way to improve the development of all peoples in all countries, including our own. The potential is very great. It can mean an enormous demand for industrial raw materials for the needs will grow, especially in the developing nations. This should benefit the domestic lead and zinc industry as well. Imports are necessary to enable foreign countries to earn dollars for the purchase of American products and services. Limitations on imports, therefore, have a direct effect upon exports which may in fact be magnified because of retaliation.

Over half of U.S. imports of lead and zinc concentrate and metal come from Canada, Mexico, Peru, Australia and other less developed countries where this country has a special interest to promote mutual trade. National defense requirements do not justify overprotection of the domestic lead and zinc industry since in an emergency these strategic commodities could be obtained in sufficient quantity from Canada and Mexico which are contiguous to this country. In addition, the government stockpile is available for emergency use.

No consideration is given to the consumer in this bill. He is subjected to all the uncertainties imaginable. Dislocation of supply, high prices, shortages, inefficient production, dismissal of labor, which were experienced by some consumers during the previous quota, are all possibilities. Partly as a result of past shortages and apprehension regarding future supply of these two metals, along with other vital considerations, alternative materials have replaced and are now replacing both lead and zinc in important applications. This trend will continue and may be accelerated if action is taken which has the effect of creating doubts as to whether there will be an adequate supply at competitive prices. Some specific examples of loss of markets include the use of plastics in automotive grilles, fender extensions, headlamp bezels and instrument clusters where zinc die castings were previously used. The lead storage battery is vulnerable to other types of energy sources such as fuel cells, lithium-chlorine, nickel-cadmium and air-batteries in certain applications. Cable sheathing is also vulnerable and, in fact, lead has suffered severely from loss of its previous leading role in the communications field.

This bill would jeopardize competitive prices for lead and zinc—that is, prices at which production is maintained on a profitable basis and yet give assurance of supply at reasonable prices to consumers, thus encouraging the widest possible use of these metals.

We seriously doubt whether legislation is needed to enact a quota system governing imports of lead and zinc, based on events which may occur in the future. This is especially so in view of the experience with quotas between 1958 and 1965.

The domestic producing industry is not without remedy. Should there be a question in the future as to whether lead and zinc are being imported in such increased quantities as to cause or threaten serious injury, formal investigating procedures to consider all relevant facts can be instituted under the escape clause provision of the General Agreement on Tariffs and Trade.

We do strongly urge this committee and the Senate not to pass the proposed legislation on the grounds that it is premature and unnecessary at this time and in the light of past experience has proved to be an unsatisfactory means of improving conditions in the lead and zinc industry.

If the purpose of this bill is to maintain lead and zinc prices at high levels to support uneconomic production and if national considerations warrant it, then a program of subsidies for and on behalf of such producers might be examined.

TEXAS GULF SULPHUR CO., INC.,
New York.

Senator RUSSELL B. LONG,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR SENATOR LONG: As the head of a United States company that has recently brought a major new zinc mine into production in Canada, I am writing you this letter to set forth our views on the proposed zinc import quota legislation (Title II of S. 289) now pending before your Committee.

Briefly stated, our position is that current United States zinc production capabilities fall so far short of current United States zinc requirements that imposition of arbitrary standby zinc import controls at this time would not only be unnecessary and premature but would also do a positive disservice to the national economy.

In saying this, I want to make it clear that Texas Gulf is not opposed to the application of sensible, flexible, selective import controls when and as such controls may be required in the national interest. On the contrary, Texas Gulf is keenly interested in the establishment of a sound overall national minerals policy because Texas Gulf has been engaged in the mining business in the United States for more than half a century and has over $200,000,000 invested in diversified mining and upgrading operations in the states of Texas, North Carolina, Utah and Wyoming.

However, the main consideration in establishing any national policy has to be actual national need and, so far as zinc is concerned, that the United States needs today is not import controls but rather stronger trading relations with its prime external suppliers in Canada and Mexico and stronger incentives to United States companies to step up their exploration activities throughout the Western Hemisphere.

The hard fact is that United States smelter production only amounts to about 80% of total United States zinc usage and United States mines are only capable of producing about 58% of the zinc concentrates needed to sustain even this plainly inadequate level of domestic smelter production.

The best evidence of this is the authoritative estimates just recently released by the highly respected United Nations Zinc-Lead Study Group. Those figures show that total United States zinc usage in 1968 will amount to 1,300,000 tons versus total domestic smelter production of only 1,030,000 tons and total domestic mine production of only 595,000 tons. This means that, in order to make ends meet in 1968, the United States is going to have to import a total of 705,000 tons of zinc of which about 435,000 tons would be in the form of zinc concentrates and about 270,000 tons would be in the form of finished metal.

Under these circumstances, it is difficult to see the need or justification for *any* zinc import controls at this time, much less the arbitrary "magic number" sort of restrictions which would be imposed by Title II of S. 289.

As pointed out during the hearings held by the Minerals, Materials and Fuels Subcommittee of the Senate Committee on Interior and Insular Affairs, the zinc import controls contemplated by S. 289 would be triggered by imperatives of inventory arithmetic rather than by imperatives of the overall national interest. The reason for this, of course, is that, under S. 289, zinc import quotas could come into force without regard to whether domestic zinc producers were receiving a reasonable return on their investment and without regard to the adverse effect that imposition of such quotas might have on domestic zinc users, or on our international trade relations or even on our national security.

None of these things would matter. The only thing that would count would be whether stocks of slab zinc owned by United States smelters happened for any reason to exceed 175% of the average monthly domestic shipments by such smelters over a three month period. In other words, everything would turn on whether domestic zinc stocks fell above or below an arbitrarily selected numerical level.

We do not believe that any convincing evidence has been or can be offered to establish that the national interest automatically requires that zinc import quotas be imposed if and when domestic stocks should ever exceed this rigid 175% limitation. On the contrary, we think that the United States would be far better advised to reserve all its options so that it can tailor its future actions to actual future circumstances. In short, we believe that Title II of S. 289

is as ill-conceived as it is ill-timed and, therefore, should not be enacted into law.

I hope that this frank expression of our views on this important subject will prove helpful to the Committee and I respectfully request that this letter be included in the record of the Committee's deliberations.

Yours very truly,

CLAUDE O. STEPHENS, *President.*

STATEMENT OF STEWART L. UDALL, SECRETARY OF THE INTERIOR

Mr. Chairman and members of the Committee, I appreciate the opportunity to testify on S. 289 as amended.

We understand and appreciate the concern and apprehension confronting the domestic producers of lead and zinc who do not want to face the prospect that excessive imports may once again threaten serious injury to mines and smelters. We are sure that this distinguished group of Senators share this feeling.

The bill being considered provides that restrictive quotas shall be imposed on imports of lead and zinc should metal inventories of primary producers reach a given level in relation to their monthly shipments. Quotas are to be applied to metal, to ores and to manufactured articles. These quotas would limit imports of unmanufactured lead and zinc in any quarter to 80 percent of the average quarterly imports during the preceding 2½ years. Fifty percent of the lead quota must be in the form of ore. There are provisions for minimum quotas and for the allocation of the quotas among supplying countries.

The Secretary of the Interior is directed to establish quotas on the quantities of specified manufactured articles equal to 100 percent of the base period. He is given discretion in the establishment of quotas for any nonspecified manufactured article.

For unmanufactured lead the quotas are imposed when inventories exceed 250 percent of the average monthly shipments. For unmanufactured zinc the quotas are imposed when metal stocks exceed 175 percent of the average monthly shipments.

These quotas come to an end if stocks drop to given levels. The lead quotas would terminate when stocks for 3 months are less than 100 percent of monthly shipments. The zinc quotas would terminate when zinc stocks for 3 months are less than 75 percent of monthly shipments. Quotas may not run longer than 3 years and the basic authority to impose quotas expires at the end of 5 years.

This Department reported on an earlier version of S. 289 on April 3, 1967, to the Senate Committee on Interior and Insular Affairs. Thereafter, the bill was the subject of hearings before the Minerals, Materials and Fuels Subcommittee on April 12 at which time this Department presented testimony in opposition to the bill. The Senate Committee on Interior and Insular Affairs reported the bill favorably, with amendments and it was thereupon referred to your Committee.

The Department of the Interior and other agencies which have reported on S. 289 are opposed to its enactment. Our opposition is based on the belief that adequate remedies are available to the lead and zinc industries as well as to other industries threatened by increased imports resulting from trade concessions and that relief should be taken only after a finding of serious injury or threat of injury.

We are further convinced that imposing or the threat of imposing quantatitive restrictions would not only result in serious repercussions in our foreign relations, but would adversely affect continued growth in U.S. exports of products containing high percentages of lead and zinc. Unilateral imposition of quotas on imports would undoubtedly trigger retaliatory actions on the part of our major trading partners encompassing the whole range of U.S. exports. This Committee is aware of the repercussions of the infamous "chicken war" of some years ago, and the retaliatory actions this Government took.

It is particularly important to note that from the standpoing of national defense, this legislation is not required since the national stockpile contains more than a million tons of each metal—all of which is in excess of the objectives.

This Committee has available to it the testimony of April 12 by Assistant Secretary Moore dealing with the background history of the lead-zinc situation. Therefore, I will only recap some of the more important recent developments affecting production and trade in lead and zinc.

As you know, on October 22, 1965, the President terminated the lead-zinc quotas. Immediately prior to this date there were shortages of both metals, particularly zinc, in this country. Accordingly, total lead imports of ore and metal in 1966 were 25 percent greater than in 1965. Zinc imports were 37 percent greater. Except for some hedging in anticipation of a strike, lead and zinc metal imports dropped back and stabilized at normal levels during the first half of 1967. Most of these increased imports, along with increased production, have been absorbed without difficulty, since 1966 set a record for the consumption of lead and zinc. In spite of the increased imports and increased domestic output and in spite of substantial releases from the national stockpile, producers stocks at yearend were still low—primary lead producers stocks at the lowest level since the Korean emergency, whereas zinc producers who had expanded their output to record levels in 1965 and 1966 built up their stocks to mid-1964 levels.

Domestic mine production of lead has grown steadily during the past 3 years. It has risen from the record-low level of 1962 back to where it was in 1957. Mine production of zinc surpassed 600,000 tons in 1965 for the first time since Korea. Work stoppages in 1966 caused output to fall slightly below 600,000 tons. The current strike will cause the yearly lead production level to drop significantly below 1966 and have a somewhat lesser effect on zinc production.

Slab zinc production set new records in both 1965 and 1966 and the output of primary lead in 1966, while not a record, was among the best years of the past decade. Demand for lead has continued at high levels and prices have remained unchanged since the end of 1966.

With this description of the current status of the lead-zinc industries, let us recognize the fact that the proposed quota bill is not intended to provide help in times such as when demand is good and stocks are manageable. This bill is designed to impose quotas on imports when producers stocks of metal reach a level considered excessive relative to shipments.

Since lead-zinc are internationally traded commodities we can only appreciate the concern of the domestic industry when we place them in the perspective of mine and smelter expansions taking place around the globe.

The International Lead Zinc Study Group which has just finished its latest meeting has tabulated the productive capacity of new mines and smelters now under construction or planned for completion through 1969. This recap indicates that the potential increase in production of both lead and zinc could be substantially in excess of anticipated demand. At this juncture it should be noted that nearly all of the principal producing companies of the world participate in these meetings or are kept informed of the Study Group's activities.

The planned expansions in zinc capacity is taking place outside the U.S. and the biggest expansion of lead capacity is scheduled for southeast Missouri by domestic firms. Relating this lead development to the provisions of the proposed legislation, one could expect that a buildup of lead metal inventories to a level which would trigger the establishment of quotas could be caused by sharply increased domestic production without any increase in imports.

S. 289 requires no finding of injury or threat of injury resulting from increased imports. In fact, there need not even be an increase in imports. The bill only requires that the level of stocks owned by producers shall be in the case of lead, 2⅓ times the monthly shipments and for zinc 1¼ times the monthly shipments. Thus the control of imports would be determined by industry actions rather than by competitive actions in the market place.

Since 1951, all trade expansion legislation has provided a means of escape for industries suffering injury from increased imports due to a trade concession. The domestic lead and zinc industry availed itself of these provisions. As the Tariff Commission pointed out in the June 1965 report recommending termination of the quota system, most domestic producers were in a stronger position to meet competition than in the past. Production has been concentrated in larger, more highly mechanized and more efficient mines. The efficiency of smelting and refining has also improved through modernization of facilities.

While we understand the current concern of the producers, we do not believe it is in the national interest to single out the producers of two commodities and depart so far from our established trade policies. Such departure would hurt our relations with important friendly countries and adversely affect U.S. exports. Canada and Mexico as good neighbors and customers are also important suppliers of lead and zinc. Australia would be another country that would suffer from the proposed quota system. They all resent this form of trade restrictions imposed unilaterally and without reference to the procedures for the determination of injury as provided for by the Congress. This Department is aware of the producers concern that the time elapsing between the filing of a petition with the Tariff Commission and a final determination allows the injury to widen and deepen and to make recovery more difficult. The President underscored this when in terminating the quotas in 1965 he urged the members of the Tariff Commission to streamline and to redouble its efforts to expedite proceedings in any case where delay might bar effective action.

We are hopeful, Mr. Chairman, that there will be no need for the industry to seek relief from imports. A number of factors support this hope and should go a long way toward ameliorating the problem. The development and dissemination of more reliable statistics on production, consumption, and trade in lead and zinc should permit industry management to make the proper investment decisions. The work of the International Lead Zinc Study Group and the widespread participation of major producers of the world in its endeavors have created an awareness on the part of all producers as to the nature and sensitiveness of free world lead and zinc markets, particularly the U.S. market.

Those firms planning future investments in lead and zinc are now better informed regarding the market demand and the presently available supply and, behaving rationally, can be expected to adjust their output so that supply and demand will be kept within reasonable balance. There is some evidence that producers of zinc within and outside the U.S. are already making such adjustments. There are also some indications that constructive plans for the development of new U.S. lead deposits are not moving as rapidly as expected.

Mr. Chairman, I have purposely avoided a discussion of the technical aspects and difficulties of administration that the proposed legislation would bring about so that we could focus on the major issue. Can we ignore existing trade policies, make an exception by providing different treatment for lead and zinc producers with complete disregard for the normal market mechanisms, or should they be afforded the same treatment provided for all other domestic industries.

Senator BENNETT. We have finished the list of witnesses for today. We will meet tomorrow morning at 10 o'clock. We will meet here to hear textile, steel, and meat. I appreciate the patience of those who have waited so long, and I hope we can get through more quickly tomorrow.

(Whereupon at 5:50 p.m. the committee was recessed, to reconvene at 10 a.m. Friday, October 20, 1967.)

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