

**REVIEW OF THE U.S. GENERALIZED SYSTEM OF
PREFERENCES**

HEARING
BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL TRADE
OF THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
NINETY-SIXTH CONGRESS
SECOND SESSION

NOVEMBER 25, 1980



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REVIEW OF U.S. GENERALIZED SYSTEM OF PREFERENCES

TUESDAY, NOVEMBER 25, 1980

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

The subcommittee met, pursuant to notice, at 10:08 a.m., in room 2221, Dirksen Senate Office Building, Hon. Daniel Patrick Moynihan presiding.

Present: Senators Moynihan (presiding), Bradley, Chafee, and Heinz.

[The press release announcing this hearing follows:]

Press Release #H-60

P R E S S R E L E A S EFOR IMMEDIATE RELEASE
November 13, 1980UNITED STATES SENATE
COMMITTEE ON FINANCE
SUBCOMMITTEE ON INTERNATIONAL TRADE
2227 Dirksen Senate Office BuildingFINANCE SUBCOMMITTEE ON INTERNATIONAL TRADE SETS HEARING
TO REVIEW THE U.S. GENERALIZED SYSTEM OF PREFERENCES

Senator Abraham Ribicoff (D., Ct.), Chairman of the Subcommittee on International Trade of the Committee on Finance, announced today that the Subcommittee will hold a hearing on Tuesday, November 25, 1980, on the President's Report to the Congress on the First Five Years' Operation of the U.S. Generalized System of Preferences (GSP) and on proposals to modify the program. GSP was established in the Trade Act of 1974 to provide authority to grant tariff preferences to products imported from developing countries. The President's Report, made pursuant to section 505(b) of the Act, was issued on April 17, 1980. Bills presently before the Subcommittee directed at GSP modification are S. 3165 and S. 3166 (sponsored by Senator Chafee). Senator Ribicoff said that Senators Daniel Patrick Moynihan (D., N.Y.) and John Chafee (R., R.I.), jointly will chair the hearing.

The hearing will begin at 10:00 a.m. in Room 2221 of the Dirksen Senate Office Building.

Requests to testify.--Chairman Ribicoff stated that persons desiring to testify during this hearing must make their requests to testify in writing to Michael Stern, Staff Director, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510, not later than Thursday, November 20, 1980. Persons so requesting will be notified as soon as possible after this date whether they will be scheduled to appear. If for some reason a witness is unable to appear at the time scheduled, he may file a written statement for the record in lieu of the personal appearance.

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

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

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

- (1) All witnesses must include with their written statements a one-page summary of the principal points included in the statement.
- (2) The written statements must be typed on letter-size (not legal size) paper and at least 100 copies must be delivered to Room 2227, Dirksen Senate Office Building, not later than noon of the last business day before the witness is scheduled to appear.
- (3) Witnesses are not to read their written statements to the Subcommittee, but are to confine their oral presentations to a summary of the points included in the statement.
- (4) Not more than ten minutes will be allowed for the oral summary.

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

Written statements. -- Persons requesting to testify who are not scheduled to make an oral presentation, and others who desire to present their views to the Subcommittee, are urged to prepare a written statement for submission and inclusion in the printed record of the hearing. Statements submitted for inclusion in the record should be typewritten, not more than 25 double-spaced pages in length and mailed with five (5) copies to Michael Stern, Staff Director, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510, not later than Friday, December 5, 1980.

Senator MOYNIHAN. A very pleasant good morning to our guests. Since I fear no one else is apt to take note of this occasion, it may be just as well that I should do so. This is probably the last time a Democrat is going to chair a meeting of the Committee of Finance for an unspecified number of years.

It is more than a normal pleasure to greet you and to be here with my friend and colleague Senator Chafee, whose special interest the Generalized System of Preferences happens to be. I don't know how you are ever going to transcribe that sentence, but my growing sense of irresponsibility illuminates our days.

I don't have any opening statement because I know we are looking forward to hearing Mrs. Cooper.

Senator Chafee?

Senator CHAFEE. Thank you, Mr. Chairman.

I do have an opening statement.

Today, as you know, we are dealing with the Generalized System of Preferences which was created by the Trade Act in 1974, and it was established to help developing nations expand economically. Under this system, the poorer nations are able to sell their goods to the United States at a reduced price because no duty is charged.

Now, the GSP is an important, worthwhile foreign aid tool that benefits many nations, both developed and developing. However, in my opinion, Mr. Chairman, this program is not without serious problems, and we are going to be dealing with some of those problems and hear explanations from those most closely associated with the program.

First, the GSP program is helping most of the countries which need the help the least, and is of little consequence to the poorest countries which need the benefits most.

Last year, for example, five nations, Taiwan, Hong Kong, Korea, Brazil, and Mexico, accounted for nearly 70 percent of all GSP imports, and the remaining 185 lesser developed countries benefited little or none, not at all from the program.

For the past 5 years, the program has failed to graduate the most advanced developing countries that have proved themselves to be fully competitive among particular industries in the world market by virtue of the volume of their exports.

Second, there is evidence that safeguards originally intended to protect U.S. manufacturers from less-expensive duty-free imports have not worked adequately. Domestic firms have discovered that it is most difficult to have a product removed from the list of GSP-eligible imports. By the time an industry has been severely hurt by GSP imports, it is often too late to save it. The duty-free preference ends, but the imports have penetrated the U.S. market and continue to grow.

Since the GSP program began, 82 products have been added to the preference list, but only 19 products have been removed. In some of the removals, it took 3 or 4 years for industries to convince the Government that an item should be removed. Consequently, many of those industries are in shambles today, such as the leather apparel industry.

Finally, there are serious questions about the way in which the U.S. Trade Representative's Office has administered the GSP program. GSP eligible products have been subdivided at will by the

Trade Representative to create two, three, four, even five new eligible products.

This particular administrative practice, which has been used to make particular developing countries both eligible and ineligible for GSP, is not based in any statutory authority. The criteria used to make these decisions are uncertain. Some legal experts believe that the Trade Representative has exceeded his authority. Furthermore, recommendations have not been sought from the ITC, the International Trade Commission, regarding the economic impact on U.S. industries of granting GSP.

As an example, in March of 1980, the Trade Representative subdivided one GSP jewelry item into five separate items, thus increasing these duty-free imports by 400 percent. Not only did the Trade Representative choose to disregard evidence showing such action would cause severe injury to this industry, the jewelry industry, but also he used ITC data that was 6 years old, 1974 data.

At the time the subdivision was ordered, the U.S. jewelry industry was suffering from increased imports, the recession, high unemployment, and fluctuating gold prices, to such an extent that the EDA, the Economic Development Administration, awarded a \$100,000 grant to help these manufacturers find solutions to these economic problems.

Now, this is not the type of safeguard that Congress had intended when it approved the GSP program.

Having testified before the House Trade Subcommittee in May, and having studied the GSP program at the request of Senator Ribicoff, I introduced legislation earlier this year to correct many of the program's problems as I saw them. Senate bills S. 8165 and S. 8166 should stimulate discussion in hearings such as today's so that early next year the Senate Finance Committee can consider revisions and improvements to the GSP.

Since this preferential treatment is due to expire in 4 years, it is appropriate for us to think about what role the GSP should assume in the mid-1980's. It is my belief that the United States should immediately begin consultation with other developed nations on an international import preference program that would replace the GSP. I hope that this committee can serve as the impetus for such negotiations.

Thank you, Mr. Chairman, and I have a statement from Senator Dole that he would wish to be included in the record, with your approval.

Senator MOYNIHAN. We are happy to do so, and we appreciate your statement, Senator, which exactly describes the mood of this committee, the Committee on Finance.

[The prepared statements of Senator Chafee and Senator Dole follows.]

STATEMENT BY
SEN. JOHN H. CHAFEE (R-R.I.)
SUBCOMMITTEE ON INTERNATIONAL TRADE
HEARING ON GENERALIZED SYSTEM OF PREFERENCES
NOVEMBER 25, 1980

The Generalized System of Preferences (GSP), created through the Trade Act of 1974, was established to help developing nations expand economically. Under this system, poorer nations are able to sell their goods at a reduced price because no duty is charged by the United States.

The GSP program is an important and worthwhile foreign aid tool that benefits many nations, both developed and developing. The program, however, is not without serious problems.

First, the GSP program is helping most of the countries which need help the least--and is of little consequence to the poorest countries which need benefits the most.

Last year, Taiwan, Hong Kong, Korea, Brazil and Mexico--5 countries--accounted for nearly 70 percent of all GSP imports. The remaining 135 lesser developed countries benefited little or not at all from the program.

For the past five years, the program has failed to "graduate" the most advanced developing countries that have proved themselves to be fully competitive among particular industries in the world market by virtue of their volume of exports.

Second, there is evidence that safeguards originally intended to protect U.S. manufacturers from less expensive duty-free imports have not worked adequately. Domestic firms have discovered that it is most difficult to have a product removed from the list of GSP eligible imports. By the time an industry has been severely hurt by GSP imports, it is often too late to save it. The duty-free preference ends, but the imports, having penetrated the U.S. market, continue to grow.

Since the GSP program began, 82 products have been added to the preference list, while only 19 products have been removed. In some of the removals, it took three and four years for industries to convince the government that an item should be removed. Consequently, many of these industries are in shambles today such as the leather apparel industry.

Finally, there are serious questions about the way in which the U.S. Trade Representative's Office has administered the GSP program. GSP eligible products have been "subdivided" at will by the Trade Representative to create two, three, four and even five new eligible products.

This administrative practice, which has been used to make particular developing countries both eligible and ineligible for GSP is not based on any statutory authority. The criteria used to make these decisions are uncertain. Some legal experts believe that the Trade Representative has exceeded his authority.

Furthermore, recommendations have not been sought from the International Trade Commission regarding the economic impact on U.S. industries of granting GSP.

As an example, in March, 1980, the Trade Representative subdivided one GSP jewelry item into five new GSP items, thus increasing these duty-free imports by 400 percent. Not only did the Trade Representative choose to disregard evidence showing such action would cause severe injury to this industry, but also used I.T.C. data that was six years old.

At the time the subdivision was ordered, the U.S. jewelry industry was suffering from increased imports, the recession, high unemployment, and fluctuating gold prices -- to such an extent that the Economic Development Administration awarded a \$100,000 grant to help these manufacturers find solutions to these economic problems.

This is not the type of "safeguard" that Congress had intended when it approved the GSP program.

Having testified before the House Trade Subcommittee in May, and having studied the GSP program at the request of Senator Ribicoff, I introduced legislation earlier this year to correct many of the program's problems.

Senate bills S. 3165 and S. 3166 should stimulate discussion in hearings such as today's, so that early next year the Senate Finance Committee can consider revisions and improvements to the GSP.

Since this preferential treatment is due to expire in four years, it is appropriate for us to think about what role the GSP should assume in the mid-1980s. It is my belief that the United States should immediately begin consultation with other developed nations on an international import preference program that would replace the GSP. I hope that this committee can serve as the impetus for such negotiations.

STATEMENT OF SENATOR BOB DOLE

Mr. CHAIRMAN —

I WOULD LIKE TO THANK SENATORS CHAFEE AND MOYNIHAN FOR HOLDING THESE HEARINGS TODAY. I WOULD ALSO LIKE TO THANK THE DISTINGUISHED WITNESS WHO WILL APPEAR BEFORE THE COMMITTEE TODAY FOR TAKING THE TIME AND MAKING THE EFFORT TO GIVE THIS COMMITTEE THE BENEFIT OF THEIR VIEWS ON THIS IMPORTANT SUBJECT.

AS THE MEMBERS OF THIS COMMITTEE WERE AWARE WHEN THE LEGISLATION WHICH INITIATED AND IMPLEMENTED THE GENERALIZED SYSTEM OF PREFERENCES WAS APPROVED IN 1974, THIS PROGRAM IS OF SIGNIFICANT VALUE AND IMPORTANCE BOTH TO OUR LESS DEVELOPED TRADING PARTNERS AND TO THE UNITED STATES. TO THESE LESSER DEVELOPED COUNTRIES, THE PROGRAM PRESENTS THE OPPORTUNITY TO EXPAND THEIR EXPORTS TO THIS MARKET. IT ALSO REPRESENTS A VISIBLE, CONSCIOUS EFFORT BY THIS COUNTRY TO AID THESE COUNTRIES IN THEIR DEVELOPMENT EFFORTS AND CREATES OPPORTUNITIES FOR THE FURTHER DEVELOPMENT OF CLOSER ECONOMIC, SOCIAL, AND POLITICAL TIES. TO THE U.S. CONSUMER IT REPRESENTS A MEANS OF LOWERING THEIR COSTS.

AFTER FIVE YEARS EXPERIENCE, HOWEVER, THERE ARE MIXED REACTIONS TO THE PROGRAM. IT IS CLEAR THAT THE EXPANDED TRADE BENEFITS ANTICIPATED HAVE NOT BEEN APPORTIONED EQUALLY AMONG THE LESS DEVELOPED COUNTRIES. ALMOST 70 PERCENT OF GSP TRADE IS ACCOUNTED FOR BY FIVE COUNTRIES, EACH OF WHICH IS GENERALLY MORE DEVELOPED THAN THE OTHER ELIGIBLE COUNTRIES. CONCERNS HAVE ALSO BEEN RAISED THAT CERTAIN ELIGIBLE COUNTRIES OR ARTICLES ARE NOW COMPETITIVE ON A WORLD SCALE AND DO NOT NEED THE ADDED ADVANTAGE OF THE GSP PROGRAM. SENATORS CHAFEE, HEINZ AND MOYNIHAN HAVE INTRODUCED LEGISLATION TO MAKE AMENDMENTS IN THE GSP PROGRAM DIRECTED AT THESE CONCERNS.

IF THE GOALS OF THE GSP PROGRAM ARE NOT BEING MET, OR THE PROGRAM CAN BE IMPROVED THERE IS NO REASON, LEGAL OR

OTHERWISE, THAT CHANGES SHOULD NOT BE MADE. WHEN THE GSP PROGRAM WAS DEVELOPED AND IMPLEMENTED, THIS COMMITTEE NOTED THAT THE PREFERENTIAL RATES ESTABLISHED WERE VOLUNTARY ON THE PART OF THE UNITED STATES. THEY DO NOT CONSTITUTE A BINDING COMMITMENT UNDER THE GATT. CONSEQUENTLY, THEY CAN BE WITHDRAWN OR SUSPENDED WITHOUT PAYMENT OF COMPENSATION.

THESE HEARINGS WILL CERTAINLY BE HELPFUL IN DEVELOPING AN UNDERSTANDING OF THE FUNCTIONING OF THE PROGRAM AND SERVE AS A BASIS FOR CONSIDERING ANY NECESSARY CHANGES.

Senator MOYNIHAN. Senator Heinz, would you like to make an opening statement?

Senator HEINZ. Yes, please, Mr. Chairman.

Mr. Chairman, first I want to commend you for calling these hearings, and I want to thank Senator Chafee in particular for having provided a very important stimulus through his legislation and for these hearings, both.

Mr. Chairman, in view of the President's report on the GSP program released earlier this year, this is a most timely hearing and one which I hope will lead to legislation early in the next Congress.

After 5 years of operation, however, there is considerable question as to whether the GSP program fully meets the intent of Congress. It has become apparent that GSP is helping most the countries which need it the least, those which have developed the most in the areas where they need it the least, and that it helps the least the lesser developed nations who need it most.

In 1979, Taiwan, Hong Kong, and Korea accounted for 50 percent of all GSP imports, and Brazil and Mexico for another 20 percent. With these five countries taking up 70 percent of GSP imports, little benefit from the program goes to the other 130 lesser developed countries.

It is also clear that the GSP program is failing to graduate the most advanced developing countries when the volume of their exports makes clear they are now fully competitive in particular economic sectors.

The administration's recent 5-year report on the GSP system affirms this inequity, and I quote:

The distribution of GSP benefits among developing countries has been uneven. Those high income beneficiaries which are the United States' main trading partners also are the main beneficiaries of the U.S. scheme.

To deal more effectively with the need to encourage trade with the poorest countries, Senator Moynihan and I have introduced S. 3201, legislation to distribute GSP benefits more equitably. This proposal was initially suggested by LICIT, the Labor-Industry Coalition for International Trade which is represented among our witnesses today. It provides for an indexing graduation system based on country and standard industrial classification, SIC codes, and for exclusions from eligibility for products subject to a dumping or countervailing duty finding.

These two provisions are an attempt to codify two general principles we believe must be fundamental to our trade policy: first, that countries accept increasing responsibilities as their level of development increases, that is, that graduation should be a generally accepted principle; and second, that this Nation will adopt a strong stand against unfair trade practices from any source and will certainly not extend the benefits of GSP or other benefits to those who engage in such practices.

Mr. Chairman, after 5 years' experience with the GSP, we believe it is clear that it is time for an overhaul, and we welcome this hearing as the first step in that process. The administration has already proposed to undertake some procedural changes which can be implemented without additional legislation.

In our judgment, that is not, however, enough. A complete re-evaluation of the GSP program is needed, and needed to determine how it can best meet the needs of the lesser developing countries, and how we can avoid having all the benefits of the program consumed by a few of the more developed developing countries.

This is not to suggest that the latter countries no longer need our support or assistance. Rather, it suggests that the GSP program conceived for the LDC's is not the proper place for support to the relatively advanced, newly industrializing countries, or NIC's.

While committed to our proposals, we are also interested in stimulating discussion and overall consideration of the GSP program so that early next year the Finance Committee can consider legislation and report appropriate revisions in the program. And to that end, I am sure our witnesses today will be extremely helpful.

I thank you.

Senator MOYNIHAN. Well, I thank you, sir, and I appreciate your reference to our legislation. I would want this company generally to know that the Committee on Finance is clearly not satisfied with the way this arrangement is working, and the committee proposes to address itself directly to it in a legislative mode early in the coming Congress.

Now, we have the pleasure and honor this morning to have the Honorable Doral Cooper, the Deputy Assistant U.S. Trade Representative, to appear before us, and it says on our list that Mr. Bennett is accompanying you, but there are four of you.

Do you have a sense of insecurity about this hearing? Are these just friends of yours?

Mrs. COOPER. These are very good friends, Mr. Chairman.

I would like to introduce Jeanne Archibald from our General Counsel's office at the U.S. Trade Representative. And next to her is Mrs. Melissa Coyle, who is the assistant director of the GSP program.

Senator MOYNIHAN. Good morning to you, and we are very happy to have you.

Please go right ahead, Mrs. Cooper.

Mrs. COOPER. I will summarize my statement, Mr. Chairman and members of the subcommittee.

Senator MOYNIHAN. We will put it in the record as if read. [The prepared statement of Mrs. Doral Cooper follows.]

TESTIMONY OF
DORAL S. COOPER
DEPUTY ASSISTANT UNITED STATES TRADE REPRESENTATIVE

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I AM PLEASED TO APPEAR BEFORE YOU TODAY, ON BEHALF OF THE ADMINISTRATION TO REVIEW THE FINDINGS AND RECOMMENDATIONS CONTAINED IN THE PRESIDENT'S REPORT TO CONGRESS ON THE FIRST FIVE YEARS' OPERATION OF THE U.S. GENERALIZED SYSTEM OF PREFERENCES (GSP). I ALSO WILL COMMENT ON SEVERAL PIECES OF LEGISLATION WHICH RECOMMEND MODIFICATIONS TO THE U.S. GSP PROGRAM.

THE UNITED STATES IMPLEMENTED ITS GSP SCHEME ON JANUARY 1, 1976, UNDER TITLE V OF THE TRADE ACT OF 1974. THE GSP IS AUTHORIZED TO EXTEND TO JANUARY 3, 1985. THE PROGRAM EXTENDS DUTY-FREE TREATMENT UP TO CERTAIN SPECIFIED LIMITS ON APPROXIMATELY 2,800 PRODUCTS TO 140 DEVELOPING COUNTRIES IN EUROPE, AFRICA, ASIA, THE PACIFIC, LATIN AMERICA AND THE CARIBBEAN. THE "COMPETITIVE NEED" LIMITATIONS OF THE GSP SERVE TO ENSURE THAT GSP ELIGIBILITY ON SPECIFIC PRODUCTS IS REMOVED FOR THOSE COUNTRIES THAT HAVE ALREADY DEMONSTRATED COMPETITIVENESS AND TO PROVIDE PROTECTION FOR DOMESTIC PRODUCERS IN IMPORT-COMPETING INDUSTRIES BY WITHDRAWING GSP ELIGIBILITY FOR AN ITEM FROM A DEVELOPING COUNTRY WHENEVER THAT COUNTRY'S ANNUAL SHIPMENTS OF THE PRODUCT EXCEED EITHER 50 PERCENT OF TOTAL U.S. IMPORTS OF THE ITEM OR A CERTAIN DOLLAR VALUE, WHICH IN 1979 WAS \$41.9 MILLION. A TOTAL OF \$6.3 BILLION IN U.S. IMPORTS FROM DEVELOPING COUNTRIES ENTERED THE UNITED STATES FREE OF DUTY UNDER THE GSP IN 1979.

THE PRESIDENT'S REPORT ON THE GSP REVIEWS THE MAJOR PROVISIONS OF THE PROGRAM AND THE REGULATIONS GOVERNING ITS OVERALL OPERATION, COMPARES THE U.S. SCHEME WITH THOSE OF OTHER MAJOR DEVELOPED COUNTRIES, AND EXAMINES THE IMPACT THE PROGRAM HAS HAD ON THE ECONOMIES OF BENEFICIARY DEVELOPING COUNTRIES AND ON THE U.S. ECONOMY.

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AS REQUESTED BY CONGRESS IN THE LEGISLATIVE HISTORY TO THE TRADE AGREEMENTS ACT OF 1979, THE REPORT ALSO DISCUSSES THE OPERATION OF THE COMPETITIVE NEED LIMITATIONS AND CONSIDERS MEASURES, IN ADDITION TO THE PRESIDENT'S EXISTING AUTHORITY, TO INCREASE GRADUATION BY COUNTRY AND BY PRODUCT IN ORDER TO PROVIDE A BROADER DISTRIBUTION OF GSP DUTY-FREE BENEFITS AMONG DEVELOPING COUNTRIES AND TO INCREASE GSP BENEFITS FOR THE LESS ADVANCED DEVELOPING COUNTRIES.

THE UNITED STATES JOINED 18 OTHER MEMBER COUNTRIES OF THE ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT IN IMPLEMENTING ITS GSP SCHEME IN 1976. THESE PROGRAMS, WHICH ARE GENERALLY SIMILAR IN TERMS OF THE NUMBER OF DEVELOPING COUNTRIES ELIGIBLE FOR PREFERENTIAL TREATMENT, ARE INTENDED TO ASSIST DEVELOPING COUNTRIES TO EXPAND THEIR EXPORTS, INCREASE THEIR LEVEL OF INDUSTRIALIZATION, DIVERSIFY THEIR ECONOMIES AND LESSEN THEIR DEPENDENCE ON FOREIGN AID.

ALTHOUGH THE VARIOUS GSP SCHEMES ARE CONSIDERED GENERALLY COMPARABLE IN THE AMOUNT OF BENEFITS THEY EXTEND TO BENEFICIARY DEVELOPING COUNTRIES, THE PRODUCT COVERAGE OF THE U.S. PROGRAM AS A SHARE OF DUTIABLE LDC TRADE IS SOMEWHAT SMALLER THAN THAT OF EITHER THE EC OR JAPAN OR MOST OTHER GSP SCHEMES. ON THE OTHER HAND, THE EC AND JAPANESE SCHEMES HAVE CEILING LIMITATIONS WHICH CREATE SOME UNCERTAINTY AMONG BENEFICIARY COUNTRIES REGARDING TARIFF TREATMENT THAT WILL APPLY TO CERTAIN GSP-ELIGIBLE PRODUCTS.

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ALL GSP PROGRAMS HAVE SAFEGUARD MEASURES TO PROTECT DOMESTIC PRODUCERS OF SENSITIVE ITEMS AND TO ENCOURAGE LESS COMPETITIVE DEVELOPING COUNTRIES TO INCREASE THEIR SHARE OF GSP BENEFITS. ALTHOUGH SOME DIFFERENCES EXIST AMONG THE PROGRAMS, IT IS GENERALLY AGREED THAT THE MAJOR DEVELOPED COUNTRIES OFFERING GSP CURRENTLY ARE MEETING THEIR INTERNATIONAL BURDEN SHARING RESPONSIBILITIES IN AN EQUITABLE MANNER. THE UNITED STATES IS NOT CARRYING A GREATER BURDEN THAN OTHER DONOR COUNTRIES. IN THIS CONTEXT, IT IS OFTEN POINTED OUT THAT WHILE ALL THE PROGRAMS CURRENTLY MAY BE ROUGHLY IN BALANCE, OTHER GSP SCHEMES WERE IMPLEMENTED 4 TO 5 YEARS EARLIER THAN THAT OF THE UNITED STATES.

THE U.S. GSP HAS NOT BEEN IN EFFECT LONG ENOUGH TO PERMIT A FULL EVALUATION OF ITS IMPACT ON THE ECONOMIES OF BENEFICIARY DEVELOPING COUNTRIES. HOWEVER, ANALYSIS INCLUDED IN THE PRESIDENT'S REPORT INDICATES THAT GSP HAS INCREASED OPPORTUNITIES FOR DEVELOPING COUNTRIES TO DIVERSIFY AND EXPAND THEIR EXPORTS.

DURING HEARINGS HELD BEFORE THE GSP SUBCOMMITTEE IN CONJUNCTION WITH PREPARATION OF THE PRESIDENT'S REPORT,* DEVELOPING COUNTRY OFFICIALS POINTED TO CONTRIBUTIONS MADE BY THE GSP IN THEIR COUNTRY'S ECONOMIC DEVELOPMENT. THEY PROPOSED IMPROVEMENTS IN THE U.S. PROGRAM, INCLUDING EXPANSION OF GSP PRODUCT COVERAGE AND A LIBERALIZATION OF THE PROGRAM'S COMPETITIVE NEED LIMITATIONS. THEY ALSO EXPRESSED THEIR CONCERN WITH ANY ATTEMPT TO REMOVE EITHER COUNTRIES OR PRODUCT SECTORS FROM GSP ELIGIBILITY.

THE PRESIDENT'S REPORT ANALYZED TRADE TRENDS UNDER GSP OVER A 3-YEAR PERIOD. ON THE BASIS OF THIS DATA, IN ADDITION TO

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CASES WHERE TRADE WAS CREATED, PRELIMINARY INDICATIONS ARE THAT TRADE IN SOME CASES IS BEGINNING TO SHIFT AWAY FROM TRADITIONAL DEVELOPED COUNTRY SUPPLIERS TO GSP BENEFICIARIES. THUS, THE PROGRAM HAS BEEN OF SUBSTANTIVE BENEFIT TO DEVELOPING COUNTRIES. SUCH A SHIFT SUPPORTS THE KEY PRINCIPLE UNDERLYING THE GSP PROGRAM THAT DEVELOPED COUNTRIES NEED TO ASSIST THE ECONOMIC DEVELOPMENT OF DEVELOPING COUNTRIES AND THAT IN MANY CASES DEVELOPING COUNTRIES NEED A TARIFF PREFERENCE IN ORDER TO BE COMPETITIVE IN INTERNATIONAL MARKETS WITH DEVELOPED COUNTRIES. IN THIS LIGHT, TEMPORARY TARIFF PREFERENCES ARE INSTRUMENTAL IN HELPING DEVELOPING COUNTRIES TO INCREASE THEIR COMPETITIVENESS, AND IN THE LONGER RUN, HELP TO MORE FULLY INTEGRATE THEM IN THE INTERNATIONAL TRADING SYSTEM.

IT IS IMPORTANT TO VIEW GSP IN THE CONTEXT OF OUR OVERALL TRADE RELATIONS WITH DEVELOPING COUNTRIES.* U.S. TRADE WITH DEVELOPING COUNTRIES EXPANDED DRAMATICALLY DURING THE 1970s AND THESE COUNTRIES CURRENTLY REPRESENT THE FASTEST GROWING MARKET FOR U.S. EXPORTS. IN 1979 U.S. EXPORTS TO DEVELOPING COUNTRIES WERE VALUED AT \$63.7 BILLION -- REPRESENTING 35 PERCENT OF OUR TOTAL EXPORTS LAST YEAR -- AND EXCEEDED THE VALUE OF OUR EXPORTS TO THE EC AND JAPAN COMBINED. THUS, THE "RECYCLING" BENEFITS OF THE GSP PROGRAM SHOULD NOT BE OVERLOOKED. DEVELOPING COUNTRIES USE PART OF THE FOREIGN EXCHANGE EARNED FROM EXPORTS, INCLUDING GSP EXPORTS, TO PURCHASE GOODS THEY NEED FROM THE UNITED STATES, THEREBY PROVIDING EMPLOYMENT FOR U.S. WORKERS AND BUSINESS FOR U.S. FIRMS.

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TO INDICATE BRIEFLY THE GROWTH IN U.S. TRADE WITH DEVELOPING COUNTRIES IN RECENT YEARS, OUR EXPORTS TO NON-OPEC DEVELOPING COUNTRIES BETWEEN 1970 AND 1979 INCREASED BY AN AVERAGE ANNUAL RATE OF NEARLY 18 PERCENT, COMPARED TO AN INCREASE OF ABOUT 15.5 PERCENT FOR U.S. EXPORTS TO DEVELOPED COUNTRIES. IN 1979, THE U.S. EXPORTED \$45.2 BILLION IN MANUFACTURED GOODS TO DEVELOPING COUNTRIES WHILE IMPORTING JUST \$ 26.4 BILLION FROM THEM. U.S. MANUFACTURED EXPORTS TO DEVELOPING COUNTRIES INCREASED BY 5.3 TIMES BETWEEN 1970 AND 1979. IN COMPARISON, MANUFACTURED EXPORTS TO THE DEVELOPED COUNTRIES ROSE 3.5 TIMES. IN SUMMARY, GSP IS AN IMPORTANT COMPONENT IN A GROWING AND MUTUALLY BENEFICIAL TRADE RELATIONSHIP BETWEEN THE UNITED STATES AND THE DEVELOPING COUNTRIES.

THE U.S. GSP PROGRAM IS STRUCTURED IN SUCH A WAY TO INSURE THAT GSP DUTY-FREE IMPORTS DO NOT ADVERSELY AFFECT DOMESTIC PRODUCTION OR EMPLOYMENT IN IMPORT-COMPETING INDUSTRIES. IN AGGREGATE TERMS, THE GSP HAS NOT HAD A SIGNIFICANT IMPACT ON THE U.S. ECONOMY IN EITHER PRODUCTION OR EMPLOYMENT. GSP DUTY-FREE IMPORTS REPRESENT ABOUT 4 PERCENT OF THE VALUE OF TOTAL U.S. NONPETROLEUM IMPORTS. IN ADDITION, THE TARIFF LEVELS ON MOST GSP ELIGIBLE ITEMS ARE RELATIVELY LOW. MOST IMPORT-SENSITIVE ITEMS ARE STATUTORILY EXCLUDED FROM ELIGIBILITY FOR PREFERENTIAL TREATMENT. PRIOR TO THE MULTILATERAL TRADE NEGOTIATIONS (MTN), THE AVERAGE MOST FAVORED NATION TARIFF LEVEL ON GSP-ELIGIBLE ITEMS WAS 9 PERCENT. THIS LEVEL WILL BE REDUCED BY ONE-HALF TO 4.5 PERCENT FROM 1980 TO 1987 AS A RESULT OF TARIFF REDUCTIONS AGREED TO BY THE UNITED STATES DURING THE TOKYO ROUND.

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GSP DUTY-FREE IMPORTS ACCOUNT FOR ONLY A SMALL SHARE OF TOTAL IMPORTS IN MOST AGRICULTURAL AND INDUSTRIAL SECTORS. WHILE THE GSP HAS NOT HAD A CLEAR IMPACT ON THE U.S. ECONOMY IN THE AGGREGATE, THE PRESIDENT'S REPORT RECOGNIZES THAT IT IS POSSIBLE THAT GSP MAY HAVE HAD AN IMPACT ON CERTAIN SECTORS OF THE U.S. ECONOMY. IN ORDER TO EVALUATE WHETHER AND TO WHAT EXTENT GSP DUTY-FREE IMPORTS HAVE AFFECTED PARTICULAR SECTORS, THE PRESIDENT'S REPORT EXAMINED INCREASES IN U.S. IMPORTS OF GSP PRODUCTS ON A SECTORAL BASIS. U.S. AGRICULTURAL AND INDUSTRIAL IMPORTS WERE DIVIDED INTO SECTORS ROUGHLY COMPARABLE TO THOSE USED DURING THE MTN.

ABOUT 10 PERCENT OF GSP DUTY-FREE IMPORTS ARE AGRICULTURAL PRODUCTS AND SINCE 1976, THESE IMPORTS INCREASED BY ABOUT \$300 MILLION. HOWEVER, FROM 1976 THROUGH 1979, THE SHARE OF GSP DUTY-FREE AGRICULTURAL IMPORTS IN TOTAL U.S. AGRICULTURAL IMPORTS REMAINED STABLE AT AROUND 4 PERCENT. WHEN ONLY DUTIABLE AGRICULTURAL IMPORTS ARE CONSIDERED, THIS SHARE ACTUALLY DECLINED FROM ABOUT 9 PERCENT TO 8 PERCENT.

ABSENCE OF SIGNIFICANT IMPACT ON U.S. AGRICULTURAL PRODUCERS IS BORNE OUT BY TESTIMONY PRESENTED BY REPRESENTATIVES OF U.S. AGRICULTURAL INTERESTS AT PUBLIC HEARINGS ON THE OVERALL OPERATION OF THE U.S. GSP IN SEPTEMBER 1979. THEY CITED NO EXAMPLES OF SPECIFIC ADVERSE IMPACT ON U.S. AGRICULTURE AS A RESULT OF GSP DUTY-FREE IMPORTS.

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NINETY PERCENT OF THE PRODUCT COVERAGE OF THE U.S. GSP IS COMPOSED OF MANUFACTURED AND SEMI-MANUFACTURED PRODUCTS. OVERALL, THE VALUE OF GSP DUTY-FREE INDUSTRIAL IMPORTS INCREASED FROM \$2.6 BILLION IN 1976 TO \$5.5 BILLION IN 1979. DURING THIS SAME PERIOD THE SHARE OF GSP DUTY-FREE IMPORTS IN TOTAL U.S. NONPETROLEUM INDUSTRIAL IMPORTS ROSE FROM ABOUT 3 PERCENT TO ABOUT 4 PERCENT.

DOMESTIC MANUFACTURERS, MANUFACTURING ASSOCIATIONS AND LABOR UNIONS HAVE ACTIVELY PARTICIPATED IN FILING PETITIONS AND PRESENTING TESTIMONY ON THE GSP, BOTH ON SPECIFIC PRODUCTS DURING ANNUAL PRODUCT REVIEWS AND ON THE OVERALL OPERATION OF THE PROGRAM. IN ADDITION, THEY HAVE SUPPLIED THE U.S. INTERNATIONAL TRADE COMMISSION (USITC) AND THE GSP SUBCOMMITTEE WITH INFORMATION REGARDING THE IMPACT OF GSP DUTY-FREE IMPORTS ON U.S. INDUSTRY. U.S. LABOR UNIONS IN PARTICULAR HAVE PLAYED A MAJOR ROLE IN PROVIDING INFORMATION ON THE EFFECT OF THE GSP ON U.S. WORKERS IN IMPORT-COMPETING INDUSTRIES.

WE BELIEVE THAT THE GSP ANNUAL REVIEW HAS BEEN AN EFFECTIVE MECHANISM FOR RESPONDING TO THOSE CASES WHERE IMPORT SENSITIVITY IN THE CONTEXT OF GSP HAS ARISEN. WHILE WE RECOGNIZE THAT THE PROCESS IS NOT A PERFECT ONE, WE BELIEVE THAT THE FLEXIBILITY THE PROCESS ALLOWS HAS WORKED TO BENEFIT BOTH DOMESTIC INTERESTS AND BENEFICIARY DEVELOPING COUNTRIES. THE PROCEDURES FOR CONDUCTING THESE REVIEWS ARE OPEN AND PROVIDE ADEQUATE

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OPPORTUNITY FOR ALL INTERESTED PARTIES TO MAKE THEIR VIEWS KNOWN. THE U.S. PROGRAM IS THE ONLY ONE THAT PROVIDES FOR SUCH AN OPEN REVIEW PROCESS ON AN ONGOING BASIS. SIX PRODUCT REVIEWS HAVE TAKEN PLACE SINCE THE IMPLEMENTATION OF THE GSP. THROUGH MARCH 1980, 132 PRODUCTS, VALUED AT \$449 MILLION, WERE ADDED TO THE GSP ELIGIBLE LIST AND 20 PRODUCTS, VALUED AT \$415 MILLION WERE REMOVED.

IN RESPONSE TO RECOMMENDATIONS MADE BY DOMESTIC AGRICULTURAL, MANUFACTURING AND LABOR INTERESTS, AS WELL AS BY FOREIGN PARTIES, THE ADMINISTRATION INTRODUCED TWO CHANGES IN GSP ANNUAL PRODUCT REVIEWS:

FIRST -- A GSP INFORMATION CENTER WAS ESTABLISHED IN OCTOBER THIS YEAR. HEADQUARTERED AT USTR, WITH ASSOCIATE OFFICES AT THE OTHER AGENCIES WHICH PARTICIPATE ON THE INTERAGENCY GSP SUBCOMMITTEE, THE INFORMATION CENTER IS AVAILABLE FOR USE BY ANY INTERESTED PARTY WHICH WISHES INFORMATION ON THE GSP IN GENERAL OR WHICH NEEDS ASSISTANCE IN OBTAINING DATA OR BACKGROUND INFORMATION NECESSARY TO PREPARE BRIEFS AND SUBMISSIONS FOR GSP PRODUCT REVIEWS.

SECOND -- THE SCHEDULE FOR PRODUCT REVIEWS, BEGINNING WITH THE 1981 REVIEW, WILL BE CHANGED TO ALLOW INTERESTED PARTIES ADDITIONAL TIME TO PREPARE SUPPORT AND REBUTTAL BRIEFS ON PRODUCTS FOR INTERAGENCY CONSIDERATION.

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IN REVIEWING THE OPERATION OF THE COMPETITIVE NEED LIMITATIONS, THE PRESIDENT'S REPORT CONCLUDES THAT THE MECHANISM IS OPERATING AS INTENDED BY TITLE V TO EXCLUDE BENEFICIARY DEVELOPING COUNTRIES FROM ELIGIBILITY FOR GSP DUTY-FREE TREATMENT FOR PARTICULAR PRODUCTS WHERE THEY HAVE BECOME COMPETITIVE.

IN 1979, ONE-THIRD OF ALL GSP-ELIGIBLE IMPORTS DID NOT RECEIVE DUTY-FREE TREATMENT AS A RESULT OF THE COMPETITIVE NEED LIMITATIONS.

DESPITE THIS LIMITATION ON DUTY-FREE TREATMENT, THE DISTRIBUTION OF GSP DUTY-FREE BENEFITS AMONG BENEFICIARY DEVELOPING COUNTRIES AT VARIOUS LEVELS OF DEVELOPMENT HAS BEEN UNEVEN. APPROXIMATELY 70 PERCENT OF TOTAL GSP BENEFITS ACCRUE TO THE PROGRAM'S TOP FIVE BENEFICIARIES (TAIWAN, KOREA, HONG KONG, BRAZIL, AND MEXICO). THIS UNEVEN DISTRIBUTION RESULTS FROM THE DIFFERENT INFRASTRUCTURES AND PRODUCTIVE CAPACITIES EXISTING IN VARIOUS DEVELOPING COUNTRIES. NOT SURPRISINGLY, THE DISTRIBUTION DOES NOT VARY SIGNIFICANTLY FROM THE FIVE COUNTRIES' SHARE IN OVERALL U.S. INDUSTRIAL IMPORTS.

IT ALSO SHOULD BE POINTED OUT THAT THESE FIVE BENEFICIARIES LIKEWISE ACCOUNT FOR 70 PERCENT OF OVERALL COMPETITIVE NEED EXCLUSIONS AND OVER 80 PERCENT OF COMPETITIVE NEED EXCLUSIONS AGAINST INDUSTRIAL ITEMS.

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WHILE THE COMPETITIVE NEED LIMITS HAVE GRADUATED MAJOR BENEFICIARIES FROM RECEIVING DUTY-FREE TREATMENT FOR A LARGE SHARE OF THEIR ELIGIBLE TRADE, THESE LIMITS TO DATE HAVE NOT RESULTED IN A SIGNIFICANTLY WIDER DISTRIBUTION OF GSP BENEFITS AMONG DEVELOPING COUNTRIES. IN MOST PRODUCT AREAS MANY BENEFICIARIES DO NOT YET HAVE THE CAPACITY TO PRODUCE THE MANUFACTURES AND SEMIMANUFACTURES WHICH PREDOMINATE IN THE U.S. GSP PROGRAM. IN THE CASE OF THE LEAST DEVELOPED, IT IS NOT CLEAR THAT THIS CAPACITY WILL BE DEVELOPED EVEN OVER A LONG PERIOD OF TIME. FURTHERMORE, THE EXCLUSION FROM THE U.S. PROGRAM OF MANY AGRICULTURAL ITEMS AND LABOR-INTENSIVE GOODS IN SECTORS SUCH AS TEXTILES AND APPAREL, FOOTWEAR, AND LEATHER PRODUCTS HAS HINDERED THE POOREST DEVELOPING COUNTRIES FROM REALIZING MAJOR BENEFITS.

TO HELP ADDRESS THIS PROBLEM, THE PRESIDENT'S AUTHORITY TO WITHDRAW, SUSPEND, OR LIMIT DUTY-FREE TREATMENT WILL BE USED TO LIMIT BENEFITS FOR THE MORE DEVELOPED BENEFICIARIES IN PRODUCTS WHERE THEY HAVE DEMONSTRATED COMPETITIVENESS AND TO PROVIDE INCREASED OPPORTUNITIES FOR LESS DEVELOPED, LESS COMPETITIVE COUNTRIES. IN APPLYING THIS AUTHORITY, THE PRESIDENT WILL TAKE INTO ACCOUNT THE DEVELOPMENT LEVEL OF BENEFICIARIES, THE COMPETITIVE POSITION OF THE COUNTRY WITH RESPECT TO THE PARTICULAR PRODUCT, AND THE OVERALL ECONOMIC INTERESTS OF THE UNITED STATES. THE AUTHORITY WILL BE EXERCISED IN THE CONTEXT OF PRODUCT REVIEWS BOTH IN ADDING AND REMOVING PRODUCTS WITH RESPECT TO INDIVIDUAL COUNTRIES. IT ALSO WILL BE APPLIED IN DECISIONS TO REDESIGNATE COUNTRIES FOR GSP DUTY-FREE TREATMENT IN ITEMS WHICH WERE PREVIOUSLY EXCLUDED BY THE COMPETITIVE NEED LIMITATIONS.

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ALSO, THERE MAY BE INSTANCES WHERE A COMPETITIVE BENEFICIARY'S CONTINUED ELIGIBILITY FOR DUTY-FREE TREATMENT OF A PRODUCT ACTUALLY IMPEDES TRADING OPPORTUNITIES FOR OTHER DEVELOPING COUNTRIES SEEKING TO ENTER THE MARKET. IN CASES WHERE IT CAN BE DEMONSTRATED THAT WITHDRAWAL OF DUTY-FREE ELIGIBILITY FROM A COMPETITIVE BENEFICIARY ON A PARTICULAR ITEM WILL EXPAND OPPORTUNITIES FOR A NUMBER OF DEVELOPING COUNTRIES, GRADUATION MAY BE APPROPRIATE.

FINALLY, IN RECOGNITION OF THE LIMITED CAPACITIES OF THE LESS ADVANCED DEVELOPING COUNTRIES TO TAKE ADVANTAGE OF THE U.S. GSP, A SPECIAL EFFORT WILL BE MADE TO INCLUDE ON THE GSP LIST ITEMS OF PARTICULAR EXPORT INTEREST TO LESSER DEVELOPED DEVELOPING COUNTRIES, INCLUDING HANDICRAFT ARTICLES.

WE HOPE THAT THE CHANGES IN THE GSP THAT HAVE BEEN INTRODUCED, AND THOSE THAT WILL TAKE EFFECT NEXT YEAR, WILL ENABLE THE PROGRAM TO BETTER MEET THE NEEDS OF BENEFICIARY DEVELOPING COUNTRIES OVER THE NEXT 4 YEARS AND ENABLE THOSE OF US WHO ADMINISTER THE GSP TO BETTER RESPOND TO THE CONCERNS OF U.S. DOMESTIC INTERESTS.

I ALSO WISH TO COMMENT BRIEFLY ON THE LEGISLATION, SENATE BILLS 3165 AND 3166, WHICH PROPOSE CERTAIN MODIFICATIONS TO THE GSP. USTR IS OPPOSED TO ENACTMENT OF EITHER OF THESE BILLS.

THE ADMINISTRATION CONSIDERS THE PROPOSED MODIFICATIONS ON S.3165 TO BE UNNECESSARY AT THIS TIME IN LIGHT OF THE UPCOMING

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CHANGES IN THE PROGRAM WHICH I HAVE JUST OUTLINED.

IN REACHING THE RECOMMENDATIONS ANNOUNCED IN THE PRESIDENT'S REPORT, THE ADMINISTRATION CONDUCTED A THOROUGH AND WIDE-RANGING REVIEW OF THE U.S. GSP. THE CASE-BY-CASE LIMITATIONS ON DUTY-FREE TREATMENT FOR MORE ADVANCED, COMPETITIVE DEVELOPING COUNTRIES ARE PROPOSED IN RESPONSE TO CONGRESSIONAL REQUESTS TO IMPLEMENT CHANGES IN THE GSP WHICH WILL RESULT IN A MORE EVEN DISTRIBUTION OF BENEFITS AMONG BENEFICIARY DEVELOPING COUNTRIES. WE FIND THE PROPOSED LEGISLATION TO BE PREMATURE, INsofar AS IT SEEKS TO INTRODUCE STILL FURTHER LIMITATIONS IN THE GSP BEFORE THE RECOMMENDATIONS IN THE PRESIDENT'S REPORT CAN BE IMPLEMENTED. WE BELIEVE THAT IT WOULD BE MORE PRUDENT TO ALLOW THE ADMINISTRATION AN OPPORTUNITY TO CARRY OUT GRADUATION IN GSP UNDER THE ANNOUNCED PROCEDURES BEFORE INTRODUCING FURTHER MODIFICATIONS IN THE PROGRAM. ALSO, ADDITIONAL ADJUSTMENTS IN GSP COUNTRY AND PRODUCT ELIGIBILITY WOULD CREATE CONSIDERABLE UNCERTAINTY AMONG DEVELOPING COUNTRY GOVERNMENTS AND EXPORTERS, AS WELL AS U.S. IMPORTERS, WHO ARE STILL SEEKING TO UNDERSTAND THE CHANGES ANNOUNCED IN APRIL.

ASIDE FROM THE UNCERTAINTY THE BILL'S PROPOSALS WOULD CREATE ABROAD AND AMONG U.S. BUSINESSES WHICH IMPORT GSP PRODUCTS, THE ADMINISTRATION CONSIDERS SEVERAL OF THE PROVISIONS IN THE LEGISLATION TO BE UNNECESSARY BECAUSE THEY DUPLICATE ALREADY EXISTING PROCEDURES. FOR EXAMPLE, THE PROPOSAL THAT THE USITC MAKE RECOMMENDATIONS TO THE PRESIDENT ON DESIGNATION OF SPECIFIC PRODUCTS FOR GSP, OR

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THE INSTITUTION OF A PROCEDURE AT THE USITC FOR REVIEW OF EMERGENCY PETITIONS TO TERMINATE GSP DUTY-FREE ELIGIBILITY FOR ITEMS, DUPLICATE THE ANNUAL PRODUCT REVIEWS ALREADY CARRIED OUT IN THE INTERAGENCY PROCESS. UNDER CURRENT PROCEDURES, THE USITC SUBMITS ITS ADVICE TO THE PRESIDENT ON THE PROBABLE ECONOMIC EFFECTS OF GSP DUTY-FREE TREATMENT ON DOMESTIC PRODUCERS OF LIKE OR DIRECTLY COMPETITIVE ARTICLES. THE GSP SUBCOMMITTEE TAKES THIS ADVICE INTO ACCOUNT WHEN IT REVIEWS ALL ECONOMIC DATA AND BACKGROUND INFORMATION ON EACH ITEM UNDER CONSIDERATION. THE REGULATIONS WHICH PERTAIN TO THESE ANNUAL PRODUCT REVIEWS ALSO PROVIDE FOR REVIEWS OF ELIGIBILITY OUTSIDE OF THE NORMAL TIMETABLE WHEN CIRCUMSTANCES WARRANT.

FINALLY, S. 3165 CONTAINS PROPOSALS WHICH WOULD SIGNIFICANTLY INCREASE THE ADMINISTRATIVE COST OF THE PROGRAM BOTH FOR THIS OFFICE AND FOR THE U.S. CUSTOMS SERVICE. QUARTERLY CHANGES IN THE DUTY-FREE ELIGIBILITY OF PRODUCTS BASED ON GLOBAL IMPORT VALUE LIMITATIONS WOULD NECESSITATE MORE FREQUENT DISSEMINATION OF GSP PRODUCT CHANGES TO FOREIGN GOVERNMENTS, THE PUBLIC AND TO CUSTOMS OFFICIALS. CALCULATION OF INCREASES IN THE DOLLAR VALUE COMPETITIVE NEED LIMITATION BASED ON ANNUAL GROWTH RATES IN DOMESTIC INDUSTRIES WOULD INCREASE THE COMPLEXITY OF THE PROGRAM, BOTH FOR THOSE WHO ADMINISTER IT AND MUST EXPLAIN IT TO THE PUBLIC AND THOSE WHO UTILIZE THE PROGRAM BOTH IN THE UNITED STATES AND ABROAD. DEVELOPING COUNTRIES HAVE PRAISED THE U.S. GSP IN THE PAST FOR ITS ADOPTION OF A PROGRAM WITH CLEAR CUT SAFEGUARD PROCEDURES. ADOPTION OF S.3165 WOULD ADD TO THE UNCERTAINTY IN DEVELOPING COUNTRIES REGARDING EXTENSION OF DUTY-FREE TREATMENT, THEREBY

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DECREASING THE PROGRAM'S ROLE IN BENEFICIARIES' INVESTMENT AND DEVELOPMENT PLANS.

THE ADMINISTRATION ALSO OPPOSES S. 3166, WHICH PROVIDES FOR DELAY IN IMPLEMENTATION OF CERTAIN MODIFICATIONS IN GSP PRODUCT COVERAGE UNTIL A FULL REPORT BY THE USITC ON THE ANTICIPATED IMPACT OF THE CHANGE CAN BE CARRIED OUT. IN THE OPINION OF THE ADMINISTRATION, A REVIEW OF THE PROBABLE ECONOMIC EFFECT OF THE SUBDIVISION OF GOLD JEWELRY UNDER TSUS 740.10 INTO FIVE NEW TARIFF PROVISIONS WAS MADE DURING THE 1979 GSP PRODUCT REVIEW. THE SUBDIVISION OF THIS TSUS CATEGORY WAS CONSIDERED IN LIGHT OF THE EFFECT THAT THE RAPID ESCALATION IN GOLD PRICES WAS LIKELY TO HAVE ON DEVELOPING COUNTRY PRODUCERS BY QUICKLY GRADUATING THEM FROM DUTY-FREE ELIGIBILITY UNDER THE COMPETITIVE NEED LIMITATIONS.

REPRESENTATIVES OF THE DOMESTIC JEWELRY INDUSTRY PRESENTED TESTIMONY ON THE SUBDIVISION REQUEST AT PUBLIC HEARINGS BEFORE THE GSP SUBCOMMITTEE IN SEPTEMBER 1979. NO INFORMATION WAS PRESENTED BY THEM AT THAT TIME TO INDICATE THAT SUBDIVISION OF THE TARIFF PROVISION WOULD RESULT IN AN ADVERSE IMPACT ON DOMESTIC PRODUCERS. FURTHERMORE, THE ADMINISTRATION DELAYED IMPLEMENTATION OF THE FIVE TSUS CATEGORIES UNTIL 1981 SO THAT STATISTICS ON EACH OF THE PROPOSED TARIFF LINES COULD BE GATHERED DURING 1980. THESE STATISTICS WILL BE REVIEWED EARLY NEXT YEAR TO DETERMINE THE ELIGIBILITY OF INDIVIDUAL BENEFICIARY DEVELOPING COUNTRIES UNDER THE COMPETITIVE NEED LIMITATIONS BEFORE THE MARCH 31, 1981

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IMPLEMENTATION DATE. IN FACT, ON THE BASIS OF U.S. IMPORT STATISTICS FOR JANUARY THROUGH SEPTEMBER THIS YEAR, IT APPEARS THAT ISRAEL HAS EXCEEDED THE 50 PERCENT COMPETITIVE NEED LIMITATION ON THE CATEGORY FOR GOLD ROPE-STYLE NECKLACES AND THEREFORE WILL NOT BE ELIGIBLE FOR GSP TREATMENT AFTER MARCH 1981.

IN CLOSING, I WOULD LIKE TO POINT OUT THAT THE SUBDIVISION ACTION IS YET TO BE IMPLEMENTED; NO CHANGE IN TSUS 740.10 WILL TAKE PLACE UNTIL MARCH 1981. THUS, THE ACTION CAN NOT HAVE HAD ANY EFFECT ON THE DOMESTIC INDUSTRY BEFORE THAT TIME. IF DOMESTIC PRODUCERS ARE AFFECTED ADVERSELY AT SOME POINT IN THE FUTURE AS A RESULT OF GSP DUTY-FREE IMPORTS, AN INDIVIDUAL FIRM OR REPRESENTATIVES OF THE U.S. JEWELRY INDUSTRY CAN PETITION THE GSP SUBCOMMITTEE TO REVIEW ELIGIBILITY OF THE ITEMS AT THAT TIME; FURTHER USITC STUDY OF THE INDUSTRY AT THIS TIME, IN OUR OPINION, WOULD BE PREMATURE.

THIS CONCLUDES MY TESTIMONY. I WILL BE PLEASED TO ANSWER ANY QUESTIONS.

STATEMENT OF MRS. DORAL COOPER, DEPUTY ASSISTANT U.S. TRADE REPRESENTATIVE, ACCOMPANIED BY TIMOTHY BENNETT, EXECUTIVE DIRECTOR, SUBCOMMITTEE ON GENERALIZED SYSTEM OF PREFERENCES, OFFICE OF THE U.S. TRADE REPRESENTATIVE; MS. JEANNE ARCHIBALD, ASSISTANT GENERAL COUNSEL, OFFICE OF GENERAL COUNSEL, OFFICE OF THE U.S. TRADE REPRESENTATIVE; AND MRS. MELISSA COYLE, ASSISTANT DIRECTOR, GENERALIZED SYSTEM OF PREFERENCES PROGRAM

Mrs. COOPER. Good morning, I am Doral Cooper, Deputy Assistant Trade Representative for Developing Countries.

Senator MOYNIHAN. We know that.

Mrs. COOPER. I'll go on.

I am pleased to appear before you today—

Senator MOYNIHAN. You are not pleased at all. You are very anxious about this.

Mrs. COOPER [continuing]. On behalf of the administration to review the findings and recommendations in the President's 5-year report on the GSP.

The United States implemented its GSP program in January 1976 under title V of the Trade Act of 1974. The program extends duty-free treatment to certain developing countries on 2,800 items.

The President's report on the GSP reviews the major provisions of the program and the regulations governing its overall operation. It compares the U.S. scheme with those of other major developed countries and examines the impact of the program on beneficiary developing countries and on the U.S. economy.

As requested by Congress in the legislative history of the Trade Agreements Act of 1979, the report also discusses the operation of the competitive need limitations and considers measures using the President's existing authority to increase graduation by country and by product.

The U.S. GSP has not been in effect long enough to permit a full evaluation of its impact on the economies of beneficiary developing countries. However, analysis included in the President's report indicates that GSP has increased opportunities for developing countries to diversify and expand their exports.

The GSP subcommittee heard from over 200 beneficiaries in conjunction with the preparation of the President's report.

Senator CHAFEE. Mrs. Cooper, could I ask you one question as you go along?

Mrs. COOPER. Yes.

Senator CHAFEE. In your written statement, you say a total of \$6.3 billion in U.S. imports from developing countries entered under the GSP.

What are the total imports into the United States, do you know?

Mrs. COOPER. Total imports in the United States. Perhaps one of my—

Ms. SCHAFFER. About \$200 billion.

Senator MOYNIHAN. \$200 billion from developing countries?

Ms. SCHAFFER. That is worldwide; from developing countries it is approximately \$92 billion in 1979.

Senator CHAFEE. What is the other figure?

Ms. SCHAFFER. Imports from developing countries come to \$92 billion.

Senator CHAFEE. So it is \$200 billion total, of which \$6.8 billion comes in under the GSP.

Mrs. COOPER. That is correct.

Senator MOYNIHAN. In other words, a much more important question, these are manufactured items. Leave out oil, leave out coffee, leave out bananas—

Ms. SCHAFFER. I don't have that figure.

Senator MOYNIHAN. I am not asking that you do, but what we would like to know is what proportion of the manufactured products from developing nations come in under GSP. My guess would be about a third.

Mrs. COOPER. No, sir, I am sure it is much, much lower than that.

Senator CHAFEE. Is that the size of the bet or the estimate?

Mrs. COOPER. We will supply the subcommittee with that information.

Senator MOYNIHAN. Now, think. Don't tell us that the developing countries give us \$90 billion when those developing countries include Kuwait, Abu Dhabi, Saudi Arabia and don't tell us that the developing countries send us \$50 billion minus oil, and that includes coffee and cobalt. We are trying to find out what amount of manufactured goods come in under this arrangement.

You don't know that.

Mrs. COOPER. We do not have that figure.

Senator MOYNIHAN. Well, I'll have to say you do not know the first question that would be asked you, ma'am.

Mrs. COOPER. Well, we can give you an estimate of that figure.

Senator MOYNIHAN. Go ahead with your testimony, but note that you came here not knowing the first question you would be asked. This is not an unimportant question. What proportion of manufactured imports from these countries comes in under this duty-free arrangement. And if you don't know it, it may be because you haven't learned to find it out. That is called avoidance, in psychology and bureaucracy.

Go ahead.

[The information referred to follows:]

DECEMBER 1, 1980.

Hon. DANIEL P. MOYNIHAN,
U.S. Senate,
Washington, D.C.

DEAR SENATOR MOYNIHAN: This Office was asked to supply certain data on the Generalized System of Preferences during the public hearings of November 25, 1980, held before the Subcommittee on Trade of the Senate Finance Committee.

In 1979, U.S. GSP duty-free imports were valued at \$6.8 billion. This figure represents 4 percent of total non-petroleum imports and 13.7 percent of non-petroleum imports (petroleum, natural gas, and petroleum products are not eligible for GSP) from developing countries. GSP duty-free imports of manufactures were \$5.2 billion in 1979, or 17.2 percent of total manufactures imports from beneficiary developing countries.

The Subcommittee also asked this Office to supply data on the Japanese GSP. Japanese GSP imports for fiscal year 78/79 (April 1, 1978—March 31, 1979) were valued at \$3 billion, or 5.7 percent of total Japanese non-petroleum imports. Of this amount, \$2.3 billion entered from Asian beneficiaries. Korea was Japan's leading beneficiary with \$690 million in GSP imports and Taiwan was second with \$662 million.

If you or your staff have further questions on the GSP, please feel free to contact me.

Sincerely,

DORAL COOPER,
Deputy Assistant U.S. Trade Representative.

Mrs. COOPER. The President's report analyzed trade trends under GSP over a 3-year period. On the basis of this data, in addition to cases where trade was created, preliminary indications are that trade in some cases is beginning to shift away from traditional developed country suppliers to GSP beneficiaries. And this is a major goal of the GSP program.

It is important to view GSP in the context of our overall trade relations with developing countries.

Senator CHAFEE. Wait a minute, what is the major goal of the program?

Mrs. COOPER. One of the major goals of the GSP program is to shift imports away from traditional developed country suppliers to GSP beneficiaries.

Senator CHAFEE. I see, all right.

Mrs. COOPER. It is important to view GSP in the context of our overall trade relations with developing countries. U.S. trade with LDC's expanded dramatically during the 1970's and these countries currently represent the fastest growing market for U.S. exports. In 1979, U.S. exports to developing countries were valued at \$64 billion, representing 35 percent of our total exports. They exceeded the value of our exports to the EC and Japan combined. Thus, the recycling benefits of the GSP program should not be overlooked. Developing countries use part of the foreign exchange earned from exports, including GSP exports, to purchase goods they need from the United States, thereby providing employment for U.S. workers and business for U.S. firms.

The U.S. GSP is structured in such a way to insure that GSP duty-free imports do not adversely affect domestic production or employment. In aggregate terms, the GSP has not had a significant impact on the U.S. economy in either production or employment. GSP duty-free imports represent about 4 percent of the value of total U.S. nonpetroleum imports. In addition, the tariff levels on most GSP-eligible items are relatively low, and most import sensitive items are statutorily excluded from eligibility for preferential treatment.

Domestic manufacturers, manufacturing associations, and labor unions have actively participated in filing petitions and presenting testimony on the GSP, both on specific products during annual product reviews, and on the overall operation of the program. U.S. labor unions in particular have played a major role in providing information on the effect of the GSP on U.S. workers and import-competing industries.

We believe that the GSP annual review has been an effective mechanism for responding to those cases where import sensitivity in the context of GSP has arisen.

In response to recommendations made by domestic agricultural, manufacturing, and labor interests, as well as by foreign parties, the administration introduced several changes into the GSP annual review process.

One of the most important is that a GSP information center will be established, and all interested parties will be provided with help and information in filing GSP petitions.

In reviewing the operation of the competitive need limitations, the President's report concludes that the mechanism is operating as intended by title V. In 1979, one-third of all GSP-eligible imports did not receive duty-free treatment as a result of the competitive need limitations. And although 70 percent of total GSP benefits accrue to five beneficiaries, it also should be pointed out that these five beneficiaries likewise account for 70 percent of overall competitive need exclusions, and over 80 percent of competitive need exclusions against industrial items.

While the competitive need limits have graduated major beneficiaries from receiving duty-free treatment for a large share of their eligible trade, these limits to date have not resulted in a significantly wider distribution of GSP benefits among developing countries. In most product areas, many beneficiaries do not yet have the capacity to produce the manufactures and semimanufactures which predominate in the U.S. GSP. In the case of the least developed, it is not clear that this capacity will be developed even over a longer period of time. Furthermore, and very importantly, the exclusion from the U.S. program of many agricultural items, labor-intensive goods such as textiles and apparel, footwear and leather products, has hindered the poorest developing countries from realizing major benefits.

To help address this problem, the President's authority to withdraw, suspend, or limit duty-free treatment will be used to limit benefits for the more developed beneficiaries in products where they have demonstrated competitiveness and to provide increased opportunities for the least developed developing countries.

Finally, in recognition of the limited capacities of the less developed LDC's, a special effort will be made to include in the GSP eligible list products of special interest to the least developed.

We hope that these changes in the GSP will enable the program to better meet the needs of beneficiary developing countries over the next 4 years, and enable those of us who administer the GSP to better respond to the concerns of U.S. domestic interests.

I also wish to comment briefly on the legislation, Senate bills 3165 and 3166, which propose certain modifications to the GSP. The administration is opposed to the enactment of either of these bills.

The administration considers the proposed modifications in S. 3165 to be unnecessary at this time in light of the upcoming changes in the program which I have just outlined. The case-by-case limitations on duty-free treatment for more advanced, competitive developing countries are proposed in response to congressional requests to implement changes in the GSP which will result in a more even distribution of benefits among beneficiary developing countries. We find the proposed legislation to be premature insofar as it seeks to introduce still further limitations in the GSP before the recommendations in the President's report can be implemented.

The administration considers several of the provisions in the legislation to be unnecessary because they duplicate already exist-

ing procedures. For example, the proposal that the U.S. ITC make recommendations to the President on designation of specific products for GSP, or the institution of procedures at the U.S. ITC for review of emergency petitions to determine GSP duty-free eligibility for items, duplicate the annual product reviews.

Finally, S. 3165 contains proposals which would very significantly increase the administrative cost of the program.

The administration also opposes S. 3166 which provides for delay in implementation of certain modifications in GSP product coverage. In the opinion of the administration, a review of the probable economic effect of the subdivision of gold jewelry into five new tariff provisions was made during the 1979 product review. The subdivision of this TSUS category was considered in light of the effect that the rapid escalation in gold prices was likely to have on developing country producers. Furthermore, the administration delayed implementation of the five TSUS categories until 1981 so that we could clearly review what was taking place in the five categories.

In closing, I would like to point out that this subdivision will not take effect until March 1981, and we will have time to review what competitive need is doing to the five categories in 1980.

This concludes my testimony. I will be pleased to answer any questions.

Senator MOYNIHAN. Thank you, madam.

Senator Chafee, I know that it is of no pleasure to you to be so soundly rebuked by the administration for the bad ideas that you put forth, but how would you be like Senator Heinz and myself who were ignored altogether? Our bill was regarded beneath comment.

Well, there you are, your turn is coming next, and we'll see how you do with the next administration.

I want to ask a question. Why did you ignore our bill? I mean, I can see why you would ignore my bill. You know, I am soon due to lapse into insignificance over here, but Senator Heinz is known to be a formidable man. He might run against you or something like that.

Mrs. COOPER. Senator, I'm sorry. We have not ignored your bill. Our office just received your bill this week, and although this was not scheduled to be the subject of the hearing this morning, we would be more than happy to informally discuss the bill with you.

Senator MOYNIHAN. Well, you are going to have to do that under the chairmanship of Senator Chafee.

Let me ask you a serious question. The GSP duty-free imports represent about 4 percent of the value of total U.S. nonpetroleum imports. How does that compare to the average?

How many aides do you have with you? I count five. How many—that's the aides to Mrs. Cooper, will they put their hands up, please.

Go ahead, put your hands up.

Mrs. COOPER. There are many of them planted in the audience.

Senator MOYNIHAN. Well, let's see how you do.

This 4-percent figure, how did that compare to the OECD, shall we say, average?

Mrs. COOPER. It is below most other developed country programs.

Senator MOYNIHAN. What is the average for Japan?

Mrs. COOPER. The average for Japan?

Senator MOYNIHAN. I see a new aide.

Mrs. COOPER. A new aide from the State Department.

We do not have the precise numbers.

Senator MOYNIHAN. What is the average for the Federal Republic of Germany?

Mrs. COOPER. The average for the European Community, I believe, is roughly 7 percent, 7 percent.

Senator MOYNIHAN. You don't have the Japanese number?

Ms. SCHAFFER. The Japanese figures are very old, Senator. We have a tough time getting them in the first place.

Senator MOYNIHAN. You mean old, antique figures?

Ms. SCHAFFER. Not quite. They are getting there.

Senator MOYNIHAN. Then why don't you come to this committee and complain?

It is not enough to come to this committee and say that we can't get the data out of the Japanese. That is what we have been telling you for the last 4 years. We put through the MTN on the understanding that there was going to be some fire in the belly of our representatives, and if the Japanese were not producing the data we need, that we would be told it.

I'm sorry, this whole—this is a flawed enterprise. It just disturbs me. I mean, if the Japanese aren't giving us their trade figures, this committee wants to know it.

Do you understand that, ma'am? I am not directing it to you, but does the administration understand that?

Mrs. COOPER. Yes, Senator.

Senator MOYNIHAN. It just lost an election because it didn't understand it.

Are you a career officer I hope?

Mrs. COOPER. Pardon me?

Senator MOYNIHAN. Are you a career officer?

Mrs. COOPER. Yes, I am.

Senator MOYNIHAN. Well, good for you. So Mr. Chafee, you will be seeing Mrs. Cooper again.

Senator HEINZ. It is safer these days.

Senator MOYNIHAN. It is safer these days. I mean, we want to know these things. That is an evasion of agreement with us. Not to have data is the same thing as refusing to give it. It is not difficult not to have data, and when the countries don't want us to know what they are doing, they simply don't collect it and we simply say, well, there you are. No doubt it is because they are backwards and don't understand these things like that. It is just plain frustrating, and it is going to turn this country into a protectionist nightmare. And all the little evasions coming out of the State Department and the Commerce Department will have added up to, or will have contributed more than their share.

I say this to you with a sense of some indignation.

Senator Chafee.

I'm sorry, forgive me. I am not being personal, I am just suggesting that in the interests of protecting the regimes of international trade, the professionals are undermining it. I have seen it. It has been going on for the last 15 years, and it is very disturbing.

Senator CHAFEE. Mrs. Cooper, I want to trace how the eligible articles get on the GSP.

Now, the statute says that the President shall furnish the ITC with lists of articles which may be considered for designation as eligible for GSP, and after receiving the advice of the Trade Commission, the President designates those articles he considers appropriate for the duty-free status. Now, that is the statute.

In other words, the ITC advice on GSP articles is to go to the President. Now, obviously the President does not get involved in something like this. Where does the ITC advice go?

The Trade Commission recommends to the U.S. Trade Representative. Now, the U.S. Trade Representative is too busy, so in fact, isn't this decision made on a considerably lower level than the STR than the Trade Representative himself?

Could you explain how it works?

Mrs. COOPER. Yes, sir, I will. The recommendations to add or delete products from the GSP are submitted by the GSP Subcommittee to the Trade Policy Staff Committee. The Trade Policy Staff Committee is composed of all the executive offices with an interest in trade policy. That TPSC is generally composed of senior level career officials. That is the first committee that makes a decision on GSP eligibility. That is where the ITC advice goes.

The recommendations of the TPSC are then transmitted to the political level TPRG, which generally transmits the advice to the USTR. If there is a problem at the TPRG level, the Cabinet level Trade Policy Committee makes a decision on GSP eligibility.

Senator CHAFEE. You see, the problem as I see it is that the International Trade Commission is the only group that is what you might call nonpartisan, independent economic group that are making a decision here, whereas once you get over to the STR, the STR is in fact thinking in terms of foreign aid, they are thinking in terms of advancement of the foreign policy of the United States, and all which are worthwhile considerations, but I think they should be recognized as such and that these decisions are not being made on economic grounds, independent economic grounds.

Now, is that a fair charge?

Mrs. COOPER. No, Senator, it is not. The decisions are not in fact made by the USTR. They are made by the interagency committee which has representatives from a broad range of economic interests in the United States.

Senator CHAFEE. Such as?

Mrs. COOPER. The Labor Department, the Commerce Department, the Agriculture Department, Treasury and State, not to forget State, and these decisions are indeed made on a broad range of grounds, including international economic grounds, domestic economic grounds as well as political considerations.

Senator CHAFEE. Well, now let's just take a specific example. I am talking now about the division of the jewelry into five eligible articles under the GSP, and I suspect you are familiar with this.

Mrs. COOPER. Yes, sir.

Senator CHAFEE. Now, what economic impact advice was requested of the ITC by the Trade Representative? Where was the independent economic input into the decision that was made? And

it is my understanding that the ITC advice that was used was that that was provided for the MTN negotiations going back to 1974.

Mrs. COOPER. In response to that question, I will turn to Mr. Bennett, the Executive Director of the GSP program, and I would also like to introduce Mr. Jeff Meeks from the U.S. ITC who may be able to give us some answers.

Senator CHAFEE. Go ahead, Mr. Bennett.

Mr. BENNETT. Thank you, Mr. Chafee.

In considering this particular case, the gold jewelry case, the law requires that we officially request economic advice from the ITC in a formal fashion only when considering the designation of new and additional items.

Senator CHAFEE. Why don't you pull that microphone over.

Mr. BENNETT. In light of the fact that the law requires that we request official economic advice from the ITC only when considering the designation of items for the GSP—

Senator CHAFEE. And you wouldn't call a subdivision—a subdivision does not fall in that category?

Mr. BENNETT. No; it does not.

In this particular case, we took an item that was currently eligible for GSP and divided it into five new classifications. This did not involve the addition of any new items to be included in these classifications. So the way—

Senator CHAFEE. Well, it is increasing by 400 percent the amount that is permitted to be imported in this category.

Mr. BENNETT. Well, what you are referring to is the possibility. It does extend the competitive need limitations by creating individual competitive need limitations for each individual item, but it does not change the imports, the specific items that are classified under those items from those that were originally classified in the parent five digit TSUS classification. In light of the fact that we determined that we did not need the official advice, we proceeded to get informal advice from the ITC and from all the subcommittee members as we do on all cases.

Senator CHAFEE. Well, Mr. Bennett, I don't want to beat this one to death, but when you take a category and you divide it into five and you say that there are no problems here because you are still dealing with the same general category, yet you are permitting the imports to go from \$42 million to five times \$42 million, that is rather a decisive change. You put the limitation way out of range from where it normally would be, both in the 50 percent limitation and the dollar limitation.

Mr. BENNETT. Yes; we are aware of this concern of the domestic industry, and they have met with us on several occasions now and expressed this concern, and conceptually that is possible. But in fact, if I might respond to that point, in fact what is going to happen when this is implemented—and the domestic industry is perhaps going to find this to their surprise—your limitations are going to actually act in a more restrictive fashion than they would have if we would have retained the original parent five-digit item.

Senator CHAFEE. Well, that is going to be the surprise of the week to the industry.

Mr. BENNETT. Well, those statistics are public, and we have shared those statistics with the Senate Finance Committee staff and also with members of your staff.

Senator CHAFEE. Well, I don't want to get into a too parochial discussion, but I think the general thrust of my questions here is what limitations are there on your doing this subdivision? And I remind you that the subdivision cuts both ways. If you take a category out of a general category and list that as a specific, then that specific category may by itself equal 50 percent of the market. I guess industries have come to you and asked you to do that, have they not?

Mr. BENNETT. That is correct.

Senator CHAFEE. But what limitations are there on you in this? Is this a freewheeling proposition?

Mr. BENNETT. I think you are asking as to our legal authority, and I think Jeanne Archibald, Assistant General Counsel, will address that.

Senator CHAFEE. Yes.

Ms. ARCHIBALD. Senator Chafee, the GSP program, like any other program in the executive branch, is subject to the General Rules of Administrative Practice. We have the same constraints on us not to act in an arbitrary or capricious manner, and not to act beyond our authority. If we do, we are subject to challenge and to suit.

That is one very basic restraint on how we act. Also, the intentions of our actions are to effectuate what we understand to be the purposes of the law. In this case, the law requires a certain balancing of interests. On the one hand, we are trying to assist developing countries, but we don't want to do it in such a way as to adversely affect domestic interests. And this balancing requires flexibility.

So we need the flexibility, but we use it in such a way as is consistent with the practice—

Senator CHAFEE. Well, I want the others to have their opportunity.

Answer the specific question, would you? Are there any specific rules on considering subdivisions?

Ms. ARCHIBALD. No, sir.

Senator CHAFEE. Thank you.

Thank you, Mr. Chairman.

Senator MOYNIHAN. Thank you.

Senator Heinz?

Senator HEINZ. Mr. Chairman, thank you very much.

Mr. Chairman, I thought you made some very appropriate comments with respect to Japan, and as long as we have a representative of the USTR here, a Deputy Assistant USTR, I would like to take the opportunity to express my concern about the export credit negotiations. I have two concerns.

No. 1, my understanding is that these negotiations, which are going to take place in the OECD December 17 and December 18, in Paris, France, that our chief trade negotiators, the USTR, are not going to be there. I don't know whether you don't want to be there or whether you have been told to stay home, but it strikes me as patently absurd that the USTR, which is supposed to be our highly paid, tough, competent negotiators, are not, for whatever reasons, present, and therefore have been frozen out, de facto, and that the

Treasury Department alone will apparently be conducting those negotiations.

Let me tell you how important those negotiations are. There is a growing problem with cutthroat financing of worldwide industrial capacity. I am most keenly affected by it in my home State of Pennsylvania because every country in the world wants to have a huge steel mill. The French and many of our other trading partners have been offering financing through the equivalent of their versions of the Export-Import Bank at very low rates for very long terms.

The present agreement between the developed countries on the financing of such facilities is that the interest rate will not be below 7 $\frac{3}{4}$ percent, as of today. Well, as of today, on the front page of the newspaper, we find that for the first time, the 6-month Treasury bill rate will be 14.02 percent. It strikes me that 7 $\frac{3}{4}$ percent, when it is not undercut, is a mighty good deal for those countries that are getting it. It is also a very bad deal because it can only lead to the oversubsidization and the overbuilding of worldwide steel and other industrial capacity that we do not need. We have too great a shortage of valuable resources to begin with, and for the world to build overcapacity in anything because of the intransigence of the French, which I will explain in a minute, is patently irresponsible.

Now, it is ironic that the OECD meetings are going to be in Paris, France because it is the French who have offered the unanimous increase in the agreed-upon floor of six-tenths of 1 percent, six-tenths, 0.6, 60 one-hundredths, which will take it all the way up to about 8.35 percent in terms of the floor.

So I would like the STR representatives to tell me now, or if they can't, to get back to this committee, why the STR is not going to Paris, France or anyplace else to do something about this problem.

Do you have an answer?

Mrs. COOPER. No, sir, no one on our panel is thoroughly familiar with the export credit negotiations in the OECD, but we will take your remarks back to the office of the USTR and insure that a response is transmitted to you promptly.

Senator HEINZ. I would like the response before Thanksgiving, please, because time is of the essence.

Now, I notice that you did not comment on one of the greatest pieces of legislation ever to be written by Senator Moynihan and myself, S. 3201.

Have you had a chance to look at it during this last week?

Mrs. COOPER. No, sir, we have not looked at it thoroughly because we just received the legislation I believe yesterday. However, we will be transmitting very shortly to you responses on the various measures that you have suggested.

Senator HEINZ. Let me take a moment, Mr. Chairman, if I may, to ask by show of hands from our witnesses who are to follow whether any of them are prepared to comment on S. 3201.

Mr. Howard Samuel, who is the chairman of LICIT, is here. Is LICIT prepared to comment on S. 3201? If so, raise your hands.

[A show of hands.]

Senator HEINZ. Let the record show that one or two hands were raised.

Mr. Rudolph Oswald is here I think.

Mr. OSWALD. Here.

Senator HEINZ. He is prepared to comment, too, I think.

Mr. OSWALD. Yes; I am.

Senator HEINZ. Myron Solter, will he be prepared to comment on it?

[A show of hands.]

Senator HEINZ. He is.

Mr. George Frankovich, is he prepared to comment?

[A show of hands.]

Senator HEINZ. He is.

Mr. Charles Fleishman, is he prepared to comment?

[A show of hands.]

Senator HEINZ. Yes; he is.

Mr. Lane Vanderslice, is he prepared to comment?

No.

Well, you and the administration have a lot in common.

Mr. Ted Rowland, his hand is up, but is he prepared to comment? No.

By a vote of five to three, comments will be made today.

Mrs. COOPER. Senator?

Senator HEINZ. Mr. Chairman, it strikes me as unique that by far the majority of our witnesses are prepared to comment on this. I must say, I am a little disappointed that the USTR, what with all the staff that you have identified out there—what is your count of staff accompanying our witnesses?

Senator MOYNIHAN. Well, it was about nine last time, but there are some hidden aides, I think.

Don't be disappointed, Senator Heinz. That's why you won the election.

Senator HEINZ. Mr. Chairman, it is indeed a low threshold of expectation that we have to meet.

Let me ask seriously, in general terms, then, since you are not familiar with the details of the bill, has the USTR thought about the idea of graduation?

Mrs. COOPER. Yes, Senator.

I would like to say one thing first, if I may, in the administration's behalf, that we were invited to testify today on three subjects, and this in fact was not one of them, and had we been given notice, of course we would—

Senator MOYNIHAN. Never overprepare, the first principle.

Mrs. COOPER. We discussed the subject of graduation at length, Senator, when the 5-year report to Congress was drafted last year. Many options, many graduation options were considered at that time, and we believe that the administration has selected one to be implemented in 1981 which will begin to insure that the benefits of the GSP are indeed shared more broadly than the 140 beneficiaries.

Senator HEINZ. Then the administration does recognize the problem that Senator Moynihan and I are trying to get at, which is the concentration of the benefits in the hands of a relatively wealthy few among the LDC's.

Mrs. COOPER. Yes, sir, we do realize that as a problem. On the other side of the coin, I think, it needs to be pointed out that these

beneficiaries, first of all, A, are not the richest beneficiaries in terms of per capita GNP in the program; but second, they also absorb by far the largest share of the competitive need exclusions under the GSP program, that is, as it is currently outlined. But we realize very sincerely that that is a problem, and we will be trying in the months ahead to insure that the share of these countries indeed diminishes.

Senator HEINZ. Is the proposal to achieve some graduation that you mentioned going to be implemented under the presidential authority granted in section 504(a) or some other authority?

Mrs. COOPER. Yes, it is, sir.

Senator HEINZ. Have you developed any criteria vis-a-vis graduation that are more specific than those set forth in the President's report?

Mrs. COOPER. No, just those in the President's report. That is where we have outlined the graduation procedures.

Senator HEINZ. Well, we are talking really about two things: first of all, graduation; and second, as a result thereof, the objective, which is the distribution of benefits. But beyond what is in the President's report, there are no more specific criteria than that to guide us; is that correct?

Mrs. COOPER. That is correct.

Senator HEINZ. Well, I see.

Well, Mr. Chairman, I thank you and the committee.

I have one last question, which is: How are other countries that you can think of dealing with this problem to the extent they have a system similar to ours?

Mrs. COOPER. The system in the EC and Japan, for instance, is slightly different, and quotas are applied to each product from each country. They will be implementing their graduation by designing stricter quotas for those beneficiaries which are the most competitive.

Senator HEINZ. So most other countries really have a very clear policy. They have quotas by country; is that correct?

Mrs. COOPER. That is correct. The European scheme will be introduced in 1981. The United States was the first donor country to clearly introduce a graduation policy into its GSP. The others now are following suit.

Senator HEINZ. I didn't mean a graduation policy. I meant they had a very specific policy for giving—for dividing up the benefits of their equivalent of a GSP. They had a quota system, as I understand what you have said, even though right behind you there is someone going like this, shaking their head.

Do you have something you wish to say? Yes, you.

I'm sorry, I thought I saw you shaking your head in answer to the question.

Senator BRADLEY. Senator, I have seen a number of people shaking their head during this.

Senator HEINZ. My goodness.

Let the record show that Senator Bradley has not lost either his step or his clear vision since his years at Princeton.

I thank the Senator.

It seems to me, then, that while we may be ahead in graduation, we have, I'd say, a less well-defined policy with respect to the distribution of benefits than most of the other countries.

Would that be a correct statement?

Mrs. COOPER. No, sir; it would not. Even though the European scheme and the Japanese scheme have limits on preferential treatment from some countries, the countries which absorb the most benefits of our program are the same countries which absorb generally the most benefits of the other developed countries' programs. So the distribution in the other schemes is not any more shared than it is in ours at the moment.

Senator HEINZ. I see.

I thank you very much.

Senator MOYNIHAN. Senator Bradley?

Senator BRADLEY. I will not ask for a raising of the hands of those people that are testifying today who might have seen this bill prior to today, and who might have had suggestions in the formulation of the bill, but I will ask the question that relates to competitive need ceilings and how we can be assured that if we do limit those underdeveloped countries that are more developed than others, how can we be sure that it is going to result in an increase in benefits to the least developed countries?

Mrs. COOPER. Senator, we cannot be sure that it will. The problem with the least developed developing countries is that they do not have the infrastructure or the productive capacity to currently produce the items that are on the "Generalized System of Preferences." Even if we remove—and this has been demonstrated in the past—one competitive beneficiary, generally the benefits do not flow to the least developed. Many of the least developed only produce the items that are statutorily excluded from the GSP. So, although our graduation procedure will go some way toward encouraging them to expand their productive capacity, until and unless we change the product mix of the GSP, we cannot be sure that the least developed will absorb a considerably greater share of the benefits.

Senator BRADLEY. If you restrict imports from the upper level of GSP countries, who usually makes up that slack in imports into the United States? Is it made up from domestic industry, or is it made up from other sources?

Mrs. COOPER. Generally if there is a shift, the benefits are very quickly absorbed by those countries just beneath the development level of the two or three which you took off.

Senator BRADLEY. OK.

I'm sorry, I had a note handed to me. What was the last thing you said?

Mrs. COOPER. That if you remove one or two beneficiaries and there is a movement toward other developing countries, it is not to the middle level countries or to the least developed countries; it is generally to the two or three countries which immediately follow the two or three you removed on the development list.

Senator BRADLEY. Is there any evidence that domestic industry fills the gap?

Mrs. COOPER. No; we do not have evidence of that in the analysis which we did for the 5-year report.

Senator BRADLEY. And is the vacuum completely filled by the mid-level GSP countries?

Mrs. COOPER. No, sir. If there is a vacuum at all—and I am not saying that there is—sometimes removing them from GSP does not affect their trade in any way. What I am saying is that the countries in the upper strata of development absorb benefits much more so than the middle level countries, and certainly more so than the least developed.

Senator BRADLEY. So there is no evidence that either less developed countries or domestic industries actually benefit from restrictions on GSP benefits for the more advanced developing countries. All right, thank you.

Senator MOYNIHAN. Thank you, Senator.

There is a vote on and Mrs. Cooper has been more than cooperative and helpful. We have got a couple of promises from you about information this committee will receive, and I hope that you can get it to us quickly so we can make it part of the record, including comments on the bill, Senate 3201, that Senator Heinz and I have introduced.

And with that, we would like to thank you and your associates for appearing before us.

Senator CHAFEE. Mr. Chairman, is it your intention to go over—to recess now and go over and vote?

Senator MOYNIHAN. I would have thought we would do that, and then we would hear from Mr. Samuel and his associates when we get back in order not to break up their testimony.

Senator CHAFEE. Fine.

Therefore, Mr. Chairman, can I impinge a little bit on the time that would not otherwise be used with another witness to ask Mrs. Cooper—

Senator MOYNIHAN. You can do so.

What's your wish?

Senator CHAFEE. Fine.

First of all, Mr. Chairman, I would ask that under section 332 of the Tariff Act of 1930—I am making a formal request—

Senator MOYNIHAN. You will take the chair while we go vote?

Senator CHAFEE [presiding]. I am making a formal request of the Senate Finance Committee to instruct the ITC to undertake a 90-day study on the economic effects the proposed jewelry subdivision can be expected to have on U.S. manufacturers. That is a request of this committee, but I just wanted the ITC people to know about it.

Second, let me just briefly ask you this: In your presentation, in your statement you stress that these lesser developed countries are very substantial trading partners of the U.S., and indeed, I think we have a trade surplus with them.

Did you make that point?

Mrs. COOPER. Yes, I did, sir.

Senator CHAFEE. And countries like Taiwan, Hong Kong, and so forth, I think you say that they constitute a greater—they are greater in volume in trade with the United States than the Western European nations are.

Mrs. COOPER. No; what I said is: Shipments to developing countries currently account for more exports than our exports to the EC and Japan combined. That is all developing countries.

Senator CHAFEE. All developing countries.

Now, what would be the effect—let's just take this graduation. It seems to me like you take a country like Taiwan or Hong Kong—after all, haven't they arrived, as far as trade goes, into a developed nation category? I mean, how far do they have to go? What does Taiwan have to become before they move out of this category and move up into a regular trading partner covered by the MTN?

Mrs. COOPER. Well, sir, you raise a couple of points. First of all, Taiwan has a per capita GNP of about \$1,400 a year, and it ranks about 30th on the list of developing countries. Taiwan does in fact have some sectors of its economy which are very, very developed, but this development does not stretch across all sectors of the economy.

What the GSP is designed to do is to take the export earnings from one sector and insure that development is more well-rounded.

In the case of Taiwan and in the case of Korea—two countries which are at the top of the beneficiary list—they participated very, very actively in the MTN and, as a matter of fact, those two developing countries' agreements—bilateral agreements reached by the United States—were by far the largest which we concluded in the MTN.

So in the Tokyo Round we received a large measure of reciprocity from both of those countries.

The trading relationship with all of them—I think it needs to be pointed out—goes far beyond GSP.

Senator CHAFEE. I appreciate that.

Some of these other countries have substantially higher per capita income—Singapore, Hong Kong—but they remain on the list.

Have any countries graduated off the list?

Mrs. COOPER. No, sir; we have only been instituting graduation to date in the form of competitive need. Next year, in 1981, we will begin graduating specific countries with respect to specific products.

Senator CHAFEE. I see. Thank you.

We will have to recess.

Thank you very much.

[A brief recess was taken.]

Senator CHAFEE. Mr. Samuel, who is appearing with Mr. McQuade.

Now, ladies and gentlemen, we are going to have to move along with a little more dispatch than we have because we have a series of witnesses here. To show how flawed we are in our approach, we had 10 minutes for Mrs. Cooper, and we took an hour and a half.

So, Mr. Samuel, do you have a statement?

STATEMENT OF HOWARD D. SAMUEL, COCHAIRMAN, LABOR, INDUSTRY COALITION FOR INTERNATIONAL TRADE, AND PRESIDENT, INDUSTRIAL UNION DEPARTMENT, AFL-CIO, ACCOMPANIED BY BRIAN TURNER, DIRECTOR OF DOMESTIC POLICY, INDUSTRIAL UNION DEPARTMENT, AFL-CIO

Mr. SAMUEL. Mr. Chairman, may I introduce Mr. McQuade, who will start the testimony of this panel?

Senator CHAFEE. Mr. McQuade is from W. R. Grace.

Mr. SAMUEL. Yes, sir.

Senator CHAFEE. Now, who else is with you? Is Mr. Abrams here?

Mr. SAMUEL. No. His place has been taken by Brian Turner, who is Director for Economic Policy for the Industrial Union Department of the AFL-CIO. He is on my right.

Senator CHAFEE. All right, fine.

Go ahead, Mr. McQuade.

[The prepared statements of Mr. Howard Samuel and Mr. Lawrence McQuade follow:]

TESTIMONY OF
HOWARD D. SAMUEL
before the
Subcommittee on Trade
Senate Finance Committee
November 25, 1980

Mr. Chairman:

My name is Howard D. Samuel, and I am President of the Industrial Union Department of the AFL-CIO. As Lawrence McQuade has noted, I appear here today as Co-Chairman of LICIT, The Labor-Industry Coalition For International Trade.

We believe that GSP at present is failing to achieve its goals. It helps most the developing countries that need it least, and helps least those that need it most. Moreover, the program is not avoiding causing injury to domestic industries and workers. For these reasons, we hope this Subcommittee will review significant reform needed in the GSP program.

Let me approach, one by one, our points about GSP and our ideas about reform.

The first point is that almost all the benefits of the current GSP system are going to a few of the richest developing countries. In 1979, Taiwan, Hong Kong, and Korea accounted for 50 percent of all GSP imports, and Brazil and Mexico for another 20 percent. With these five countries taking up 70 percent of GSP imports, obviously very little remains for the 130 other beneficiary developing countries. This is clearly contrary to the stated purposes of GSP, which include having the most advanced developing countries "graduate" to assuming the greater obligations of the international trading system, so that other developing countries can improve their competitive opportunities.

To improve the developmental focus of GSP, two kinds of steps can be taken. We suggest that the Administration and this Subcommittee carefully explore ways to increase access to the U.S. market for GSP imports from the least developed

countries. We also suggest that consideration be given to how to reform GSP so as to limit undue concentration of benefits.

Two basic approaches are available for reducing benefits for highly competitive advanced developing countries; graduation can be approached on a "country" basis or on a "product-sector" basis. Graduation on a country basis would phase out GSP benefits for a beneficiary country as a whole when its export performance under GSP is among the very strongest. For example, when one country supplies more than a billion dollars in GSP imports in a year, the competitive need ceiling for its products might be lowered by some significant amount. Or, when one country supplies more than a certain percentage -- say, 10 percent -- of all GSP imports, its competitive need limits might be lowered. These illustrative figures highlight the kinds of approaches that might increase preferential access for the middle tier of developing countries.

A "product sector" to graduation would eliminate GSP eligibility for products in a certain sector -- say, 2-digit SIC industries such as transportation equipment or electrical/electronic equipment -- when GSP imports from that country in that product sector reach a certain level or certain percentage of total GSP imports in that sector. This is sensible because it eliminates GSP treatment for sectors which are advanced and can meet international competition, and yet avoids the foreign policy objections which arise in eliminating a country completely from GSP eligibility, although sections of its economy are still less developed.

There are many possible variations, and we hope you will give serious attention to this question of undue concentration of GSP benefits.

Our second point is that the GSP program can and should be administered in a more open and predictable manner. Decisions about eligibility for GSP benefits should be accompanied by a full public explanation of their bases and given adequate opportunity for rebuttal. For example, in a recent case in which USTR overturned

an International Trade Commission injury finding, the full explanation given was one paragraph in The Federal Register. We think that's insufficient in view of the jobs and investment so often at stake.

The credibility of the program can be enhanced by providing publicly available specific criteria and procedures which will be followed in the decision-making process. Additions and deletions from the list of GSP products should be made on publicly stated and equitable and consistent grounds.

Not only should the criteria for adding or deleting products be more open and predictable, they should provide a stronger foundation for avoiding injury to domestic producers as a result of the administration of the GSP program. We often see findings of import injury from other U.S. government agencies which are apparently ignored by USTR in their review of petitions to add or delete products on the GSP list. We think there is relevance in findings of injury by the International Trade Commission for products which are, or may become, eligible for GSP treatment. Should not such an injury finding relate to the question of "import sensitivity in the context of GSP," which is the sole statutory criterion for deletion of products from eligibility? Similar questions can be raised with regard to cases in which Trade Adjustment Assistance has been granted due to imports of the same product, under consideration by USTR.

Our third and final point is that continued eligibility for participation in the GSP program should take into account the trade practices of the country in question. In general, our decisions about a country's eligibility should take into account the openness of the beneficiary country's trade policies.

One aspect of graduation of the more advanced developing countries should be their granting equitable access not only to products from the United States, but particularly in the context of GSP, their granting equitable access to the products of other developing countries. Moreover, decision about GSP eligibility

should take into account findings under U.S. trade law that a country has engaged in unfair trade practices.

We believe these steps would, taken together, bring the GSP program much closer to the goals set for it when it was established 5 years ago, and make it much more responsive to American economic conditions and trade laws. We urge you to consider them carefully, and we would be delighted to work with Committee staff on these or other proposals to reform GSP.

We are heartened by the extent to which these concerns are reflected in both the Heinz-Moynihan and the Chafee bills. Together they contain the elements of a total approach to GSP reform which we hope will achieve positive action early in the next Congress.

I agree entirely with Lawrence McQuade in commending the Subcommittee for this inquiry into GSP and in thank you for your kind attention today to the views of the Labor-Industry Coalition for International Trade.

LABOR-INDUSTRY COALITION FOR INTERNATIONAL TRADE

Union Organizations

Industrial Union Department, AFL-CIO
Amalgamated Clothing and Textile Workers Union
American Flint Glass Workers Union
Communications Workers of America
International Association of Machinists and Aerospace Workers
International Brotherhood of Electrical Workers
International Ladies' Garment Workers Union
International Union of Electrical, Radio and Machine Workers
United Steelworkers of America

LABOR-INDUSTRY COALITION FOR INTERNATIONAL TRADE

Industry Organizations

Allegheny Ludlum Steel Corporation
The Boeing Company
Corning Glass Works
Eaton Corporation
W. R. Grace and Company
Ingersoll-Rand Company
St. Joe Minerals Corporation
Westinghouse Electric Corporation

TESTIMONY OF
LAWRENCE C. McQUADE
before the
Subcommittee on International Trade
Senate Finance Committee
November 25, 1980

Mr. Chairman:

My name is Lawrence C. McQuade, and I am a Senior Vice President of W.R. Grace & Co., New York. I appear here today with Howard D. Samuel, President of the Industrial Union Department of the AFL-CIO. We speak for The Labor-Industry Coalition for International Trade, and I would like to describe its purpose. At the conclusion of my brief remarks, Mr. Samuel will present the Coalition's views on GSP or the Generalized System of Preferences.

Our Coalition, often referred to as LICIT, was founded in 1979 by a group of companies and trade unions. Its genesis evolved from a desire to promote open and fair competition in international trade. For the record, let me submit a list of the member unions and corporations on whose behalf we appear today.

The Coalition grows out of labor-industry contacts made during the MTN process of last year. Many in the business community and in labor have found common ground in rejecting the inferences now represented by the vastly oversimplified terms such as "free trade" and "protectionism." Our focus is to support augmented, balanced, equitable trade relations. We have joined together since we believe that sensible trade policies will not only benefit American business and labor, but on an even broader scale the American consumer. Our program includes -- in addition

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to a keen interest in GSP -- several other initial goals. First, we seek vigorous enforcement of the Trade Agreements Act of 1979, both with respect to action against foreign dumping and subsidies, which put American producers at a disadvantage, and with respect to open access for American goods in world markets through implementation of the new international codes on product standards, government procurement, and customs valuation practices. Second, we seek a reciprocal trade policy based on the principle of equal access for American products to the markets of our international trading partners. Third, we are interested in the revision of U.S. laws so as to deal with several types of abuses, such as dumping and subsidies by non-market economies, including "endemic dumping," meaning the dumping of a product over an extended period of time. Fourth, we favor vigorous promotion of U.S. exports, by improving support services for U.S. exporters, and by reducing foreign barriers to U.S. goods. Fifth, we would like to see the elimination of trade related performance requirements -- "minimum export" and "local content" requirements -- which foreign governments increasingly impose on American and other investors. These practices reflect a policy of governmental fiat which works to distort the natural international market forces, exports American jobs, and contradicts the concept of comparative advantage.

After extensive discussion and reflection on the program among the principal officers of its members, our Coalition has reached conclusions about GSP which we are anxious to offer to you today. For this purpose, I will turn to Mr. Samuel.

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In our proposals for reform of GSP, we seek only to strengthen the program -- to have it fulfill the original intent of the Congress and the Administration. We agree with its purpose in assisting developing countries to participate more fully in the international trading system. Furthermore, we believe that in many cases the program has done precisely that, and has been of help to the less wealthy countries.

At the same time, we sense that GSP is not currently working as it should. Its value to the poorer countries, even to the middle-tier developing countries, is limited. It is our feeling that GSP can be restructured to bring its operations more closely in line with its goals. This is why we are here today. The Generalized System of Preferences should mean what its name implies -- preferred treatment to correspond with the development needs of receiving countries, which at the same time avoids harm to our own industries. The system now appears unable to discriminate between its duty free treatment and preferential treatment with respect to the countries most needing preferred access to our market.

Senators Heinz and Moynihan have introduced recently S. 3201, which would eliminate some of the inequities in the present GSP Program. Senator Chafee has introduced S. 3165, a somewhat similar bill. Mr. Samuel will discuss these bills in more detail.

**STATEMENT OF LAWRENCE C. McQUADE, SENIOR VICE
PRESIDENT, W. R. GRACE & CO.**

Mr. McQUADE. I am senior vice president of W. R. Grace & Co.; in alternate years I am a member of the board of directors. Grace is a large company. We have \$6 billion in sales and 82,000 employees. Today I am representing the industry portion of the Labor-Industry Coalition. I was once Assistant Secretary of Commerce responsible for trade issues during the days of President Johnson, and therefore have a more than usual interest in this subject.

Briefly, our coalition, which is called LICIT, was founded in 1979 by a group of companies and trade unions, and its genesis involved a desire to promote open and fair competition in international trade. We have submitted to you a list of the member unions and corporations on whose behalf we appear today.

We grew out of the MTN process of last year because many people in business and in labor found common ground in rejecting the vastly oversimplified terms such as free trade and protectionism. Our focus is to support augmented, balanced, equitable trade relations because we think sensible trade policies will not only benefit American business and labor, but on a broader scale, the American consumer.

Senator CHAFEE. You are here, therefore, in strictly an altruistic capacity.

Mr. McQUADE. I couldn't have said it more accurately, Mr. Chairman.

Actually, there are four or five goals which we are working toward, and I will identify them very briefly.

First, is the vigorous enforcement of the Trade Agreements Act of 1979 against foreign dumping and subsidies.

Second, is a reciprocal trade policy based on the principle of equal access for American products to the markets of our international trading partners.

Third, better control of abuses such as dumping and subsidies by the nonmarket economies, including what we call endemic dumping over an extended period of time.

Fourth, we would like vigorously to promote U.S. exports.

Fifth, we would like to eliminate—

Senator CHAFEE. Now, I might say, Mr. McQuade, if you have something—this fourth is of great interest to me, which has nothing to do with this hearing, but I have been, as you know, deeply involved in the taxation of Americans abroad, 911, 913, and if you have any material dealing with that fourth that you would like to send in to me, I would be interested to see what ideas you have got.

Mr. McQUADE. I would be delighted to do that. We will do that.

Senator CHAFEE. All right, now on to the fifth.

Mr. McQUADE. And our fifth is to eliminate trade-related performance requirements, like minimum export and local content requirements, because we think these work out effectively as restrictive barriers to trade.

And all of these practices really represent a policy of governmental fiat which works to distort the natural international market forces, and export American jobs and contradict the concept of comparative advantage which is the core principle around which trade policy should be built.

Now, with respect to GSP, we want to strengthen that program to have it fulfill its original intent, the one which Congress and the administration had in mind when they adopted it. We agree with its purpose of assisting developing countries to participate more fully in the international trading systems, and we believe that in many cases that has been the result, that it has helped the less wealthy countries.

At the same time, as is reflected in the bills which you, Senator Moynihan and Senator Heinz are pursuing, the value of GSP to the poorer countries, even to the middle tier developing countries, is limited. And we believe that GSP should be restructured to bring its operations more closely into line with its goals so that preferred treatment corresponds to the developed needs of the countries receiving the privilege, and of course, we would like it to avoid harm to our own industries.

The system now seems to discriminate, as you note in your own testimony, against the countries most needing preferred access to our market and in favor of those countries who have demonstrated they are able to compete without privileged access to the U.S. domestic market.

Senator CHAFEE. Now, I am not so sure that I would say it discriminates against the lesser developed countries. I just don't think it does much for them. I don't think it does anything against them.

Mr. MCQUADE. Maybe that is just a question of phraseology, but I think we understand the same principles.

Senator CHAFEE. OK. Now, there is another vote, but we want to move here.

Mr. Samuel?

Mr. MCQUADE. That is the net of it.

Senator CHAFEE. Well, Mr. McQuade, I agree with what you say, except are there some specifics, or are the specifics going to be given by Mr. Samuel?

Mr. MCQUADE. Our strategy is to give Mr. Samuel that responsibility

Mr. SAMUEL. Mr. Chairman, I will be very brief. And we do want to associate the Labor-Industry Coalition for International Trade with the comments that you made and that Senator Heinz made at the beginning of the hearing. However, I cannot comment, we cannot comment on S. 3166 since as LICIT we do not involve ourselves in sectoral problems.

I don't think I have to repeat much of what has been said already by yourself and by Mr. McQuade. We don't think that GSP is carrying out the functions it was meant to do. As we have already indicated, much of the benefits have been restricted to a relatively small number of countries.

It is very clear—and I say this partly in response to the question that Senator Bradley asked before—when the competitive need formula does take effect, the benefits do tend to flow down to other countries which have not previously been able to take advantage of them: So if a graduation process is pursued, it is clear that benefits will accrue to other countries, perhaps more in need and more deserving than those who are now, one might say, monopolizing the benefits of GSP.

We do make three suggestions for legislation, first—and I will simply do them by title—is to improve the developmental focus. We suggest that the administration and the subcommittee explore ways to increase access to the U.S. market for GSP imports from the least developed countries.

We would like to suggest that consideration be given to how to reform GSP so as to limit undue concentration of benefits. That, I think, is the thrust of your bill and the Heinz-Moynihan bill as well, which is why we support them in terms of their basic thrust.

As you know, graduation can be approached in different ways, can be approached on a country basis, on a product sector basis, and even on a combination of those, and we would support any useful efforts to bring these principles into effect.

Second, we hope that the GSP program can and should be administered in a more open and predictable manner. Decisions about eligibility for GSP benefits should be accompanied by a full public explanation of their bases and given adequate opportunity for rebuttal. We don't think that has happened so far.

Not only should the criteria for adding or deleting products be more open and predictable, they should provide a stronger foundation for avoiding injury to domestic producers as a result of the administration of the program.

Our third and final point is that continued eligibility for participation in the program should take into account the trade practices of the country in question. In general, our decisions about a country's eligibility should take into account the openness of the beneficiary country's trade policy.

We believe these steps taken together would bring the GSP program much closer to the goals set for it when it was established 5 years ago and make it much more responsive to our own economic conditions and trade laws.

We are heartened by the extent to which these concerns are reflected in both the S. 3201 and S. 3165. Together they contain the elements of a total approach to GSP reform which we hope will be reintroduced and will achieve positive action early in the next Congress.

I want to join with Mr. McQuade and commend the subcommittee for this inquiry and to thank you for your kind attention.

Senator CHAFEE. Well, thank you, Mr. Samuel. We are, as you can tell about these hearings, these are rather exploratory hearings. We have legislation; obviously nothing is going to happen in this session of Congress in the next week, but we are getting into it and we are going to spend more time on it in the next session when we come back. And we will look forward to calling on you and Mr. McQuade and the other witnesses for help as we proceed through here.

Thank you very much.

Mr. Oswald.

Mr. Oswald, do you have a statement?

Mr. OSWALD. Yes, Mr. Chafee, and I am accompanied this morning by Ms. Elizabeth Jager, an economist for the AFL-CIO.

Senator CHAFEE. We are glad you are here.

Mr. OSWALD. In addition to my statement, I would like to introduce for the record a statement we presented to the STR a year

ago on the subject of the hearings, and if I may introduce it into the record, I would like to at this point.

Senator CHAFEE. Yes.

How big is that? That's not too big, is it?

Mr. OSWALD. That additional statement is about 10 pages with accompanying tables.

Senator CHAFEE. All right, lay it in.

Mr. OSWALD. If that is all right.

Senator CHAFEE. Why don't you summarize your statement here. I have got it in front of me.

[The prepared statement of Mr. Rudolph Oswald and the information referred to follow:]

STATEMENT OF DR. RUDOLPH OSWALD, DIRECTOR, DEPARTMENT OF RESEARCH,
AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS,
BEFORE THE GSP SUBCOMMITTEE OF THE TRADE POLICY STAFF COMMITTEE, ON
THE FIVE YEAR REVIEW OF THE OPERATION OF THE GENERALIZED SYSTEM OF
PREFERENCES

September 20, 1979

The AFL-CIO welcomes this opportunity to present our views on the operations of Title V of the Trade Act of 1974 -- the Generalized System of Preferences -- which provides special zero tariffs for imports from developing countries. Starting in 1976, the United States provided these special trade preferences for imports of more than 2700 separate products or parts of products from about 140 low-wage countries and territories.

The AFL-CIO supports help for poor people in poor countries and the healthy development of the world's economies. For more than three decades, the AFL-CIO and its affiliates have participated in programs designed for that purpose. Two recent representative policy statements are attached. (Appendix A)

It is important to continue to review GSP because the world continues to change. Massive transfers of capital, production and technology tend to create high levels of industrialization in some countries without helping the poor. In others, windfalls from high-priced oil and raw materials causes inflows of foreign exchange to LDCs which far exceed even the imagination of those who first proposed preferences. The so-called "developing" countries now include some very rich and highly industrialized nations, as well as some tragically poor countries. The differences in wealth, population, size and resources in countries make a reevaluation critical.

It is important to review who are the real beneficiaries of industrialization and whether the working people of the countries are receiving the benefits, or whether the multinationals and powerful elites are the major beneficiaries. Sad to say, it is our experience that most of the benefits have gone to multinational firms and powerful elites. In many cases, the preference system has helped feed the export-led development which has not proved beneficial to the people even of those countries. Real wages have actually declined in some countries where the "miracles" of development are heralded. Furthermore, the problem of economic distortion for U.S. production and jobs has grown.

In adopting Title V of the Trade Act of 1974, Congress tried to limit the program so that imports would not harm the United States, and so that the countries which could compete effectively in world trade would not get most of the benefits.

Unfortunately, the U.S. trade balance has worsened since 1974, and the imports from developing countries have increased rapidly. An analysis of imports from countries using GSP show that the program has contributed to a deterioration of the U.S. position. Furthermore, the leading countries which get GSP are not the poorest countries.

In 1978, the U.S. had a trade deficit of \$30 billion more imports than exports, and a deficit of \$6 billion in manufactured products. The U.S. was over \$5 billion in deficit with 3 leading users of GSP. (Taiwan, Hong Kong and Korea) (Appendix B)

Total GSP imports from all nations amounted to \$5.2 billion in 1978, a rapid increase from the \$2.6 billion of GSP imports in 1976.

The list of products includes many items varying from copper and sugar to non-diesel piston engines to airplanes, toys and parts.

The five leading users of GSP accounted for \$21 billion of U.S. imports. Imports from these countries include items eligible for GSP as well as a great amount of non-GSP items.

Furthermore, the countries which got GSP from the U.S. had access to other world markets. The 16 countries which received 90 percent of GSP in 1978 exported over \$110 billion to the world that year. The five leading users of GSP in the U.S. had over \$56 billion in exports to the world in 1978, according to International Monetary Fund data. (Appendix C)

The U.S. exports to these countries rose, but U.S. shares of developed countries' exports to developing countries have dropped. Japan has increased her share. Other developed countries have kept an even share.

But any set of data understates the true impact of GSP for three reasons: One, the impact of imports does not stop with the removal of GSP. Imports continue. Only the tariff is reimposed. The fact that GSP exists encourages initial foreign production of the item for exports to the U.S. Instead of U.S. investment, foreign investments are made. Subsequently, U.S. capacity becomes obsolete and is allowed to go idle and U.S. production may cease entirely. Third, as one type of item is removed from GSP another may be added. A current proposed list of deletions and additions demonstrates the continually shifting program. (Appendix D) The result is that no single figure gives a realistic picture of the effect of GSP imports.

Title V of the Trade Act of 1974 includes limitations which seek to avoid disruption to U.S. production and provide benefits to those countries that truly need it. Section 501 and 503 of the Trade Act made it clear that the President had the authority to choose countries and products for the list for this unilateral benefit. However, in making these decisions, three major standards

were clearly stated:

(1) The President was to show "due regard" for the impact on U.S. producers, (Section 501 (3)).

(2) The President was to limit the granting of benefits to products which were not "import-sensitive" (Section 503).

(3) An elaborate "competitive need" formula was devised to make sure that countries which could compete in world trade would not get all the benefits. (Section 504)

The administration of the program modified or ignored many of the caveats and rules of the Congress. The instruction to show "due regard" for U.S. producers has not been fully carried out because U.S. producers have not had adequate notice about the program. The Congressional intent that those best equipped to know the impact were to advise the President of potential problems has not been fully carried out. Instead, massive lists of numbers are published in the Federal Register without product identification. Experts and a few others then can discuss them.

For example, President Ford issued a list of tariff numbers on January 1, 1976 covering \$2.6 billion in imports. Not even the names of the products were published. Over 2700 items -- including TV parts, fasteners, doors and other products where U.S. jobs and production have been suffering -- were included.

President Carter issued a list on March 1, 1977 covering \$3.5 billion in imports. Imports were coming in under GSP at a rate of \$300 million a month. In 1978, they were coming in at a rate of more than \$400 million a month or over \$5 billion.

There is no doubt the administration of GSP has improved since 1976. Hundreds of items have been re-examined. But a range of products from drydocks to air-conditioning equipment, from fasteners to polyvinyl chloride are left on the list despite the impact of these imports on U.S. production. The burden of proof for removing an item from the GSP list is still on the injured. They must prove facts that are often not available to them.

Administrators of GSP should help injured parties and obtain information from multinationals, foreign governments and other governmental agencies concerning key facts about specific products -- where and how they are produced and what future "development" plans are underway. The job of the administrators should be to represent the U.S. producers' interest -- not exclusively the foreign policy concern.

The direction to omit import-sensitive items has not been administered effectively. Instead, countries' desires for exports to the U.S. seem to outweigh clear evidence that injury in the U.S. has taken place or may occur. Where market penetration is great, dumping has been found, escape clause actions are pending and/or trade adjustment assistance has been granted, import-sensitivity clearly exists. But a number of products involved in such cases are still on the list.

A special problem is import-sensitive electronic products which were specifically excluded in Section 503. But time and time and time again, imports of electronic items and parts were given this special tariff treatment. The cathode ray tube, important for the production of certain types of black and white TV, radar and other uses, is just one example. Continued evidence of job losses by some of the affiliates of the AFL-CIO concerning some other electrical products have not resulted in any change.

Another example of administrative problems was the import of the newest oil drilling rigs -- a type of product needed to solve America's technological demands for energy development. It took the combined efforts of a great many

AFL-CIO affiliates -- plus the Industrial Union Department, the Building Trades Department, and the Maritime Trades Department -- to get action on this item. The date of action is not until March 2, 1980. Meanwhile, the union which brought the case lost the jobs and job opportunities that went with such production. The beneficiary was not a "poor" country, but a major multinational construction firm which was getting another tax break from Uncle Sam at the expense of workers everywhere.

Furthermore, this case is an example of another concern: The evidence of unsafe and unhealthy labor conditions is often clear. The Ironworkers stated in seeking an end to GSP for oil drilling rigs: "Let me call your attention to the photographs submitted by the American-based fabricator which so clearly illustrate intolerable and unsafe work conditions, totally unacceptable in the United States, which do, in reality, eliminate substantial costs to any contractor. This is particularly true when those costs are compared to competitive bids which would have the work performed in the United States under proper and safe work conditions. This gives substantial evidence and credence to the 'ugly American' image this country has in foreign lands. It is unfortunate indeed that we achieve such an image through no fault of our government, but we certainly should not tolerate additional tax subsidies for procedures that expand such an image."

Next week, once again, this committee will hear about serious specific problems in industries where the injury has been longstanding and the jobs have already been decimated. Yet the petitions by foreign governments or U.S. importers will appear to have preferential status over U.S. injured parties. Some examples are: pianos, eyeglasses, ceramic tile, glass materials of various kinds, wood blinds, shades and screens.

U.S. producers of pianos and musical instruments have already been adversely affected by imports. Escape clause findings in past years have demonstrated losses of jobs and production. But the fact that a foreign government

or a U.S. importer now seeks another tax advantage for his imports means that the union representing workers in this industry must prove that the special tax break should not be granted to imports or the remaining jobs will be lost. Eye-glasses have been imported at an accelerating rate and cost jobs in many parts of the U.S. This is a well-known fact. But again, the union representing those workers must bear the burden of proof in a public hearing in the hope that action will be taken in their interest. Ceramic tile and a list of glass items -- including items ravaged by imports in the past -- are also on the list of petitions. Imports of wood, blinds, shades and screens are a serious problem, already with a 20 percent market penetration, in an industry plagued by job losses.

The electronic items for next week's hearing need no further discussion at this point. But it is interesting to note that electronic item after electronic item still appears on the list.

The "competitive need" formula has been administered in a confusing way. For example, the GSP status may be reimposed if the country requalifies for the "competitive need" formula. This has been used to reimpose GSP instead of to assure that only needy countries qualify. This makes a mockery of the concept that this program is designed to help poor countries get into world markets. What it does is to provide windfalls for already competent producers and to pit country against country, making all of them unhappy with the U.S.

A good example of this is the current problem of GSP for imports of freight cars. Posed as a "Mexican" problem, the Congress has been asked to suspend tariffs on freight cars for the next two years. They had the same request in the last Congress. Meantime, Mexico was removed from the GSP list because it supplied more than half of U.S. freight car imports and thus had no "competitive need." Now that imports are coming in from Canada, Romania, and from other countries, the GSP competitive need formula may be applied again and Mexico may requalify. The impact in the U.S. is to discourage needed expansion of production.

The impact abroad is that each country, in effect, will be annoyed no matter what the U.S. does. If the tariff is suspended, the Mexicans will lose to other countries. If the tariff is not suspended, other countries will complain. If Mexico gets GSP and others do not, the anger of others will grow.

Another example of an unusual inclusion on the list is polyvinyl chloride. Imports quadrupled between 1975 and 1978. About 90 percent came in under GSP from Taiwan. "Competitive need" was effectively met long ago because clearly Taiwanese exports compete. Dumping has been found for polyvinyl chloride imports. But GSP has continually been applied. Now U.S. producers must seek action and prove their need to have it removed.

GSP for imports from OPEC countries was prohibited in 1974. This prohibition was removed in the Trade Agreements Act of 1979. There is no requirement that GSP be granted to these nations, and we believe that their extensive favorable balance of trade makes GSP unnecessary for OPEC countries.

Even though some sensitive, typically low-wage items are excluded from the GSP list, they are not excluded from the U.S. market. Many of these items are produced in developing countries and exported to the U.S.

The United States' imports of textiles, apparel and shoes have literally zoomed upward for two decades. The bulk of U.S. imports of textiles came from less developed countries. The Multifibre Agreements have always allowed the exports from poor countries to reach U.S. markets. Nor has the import of shoes ever been cut off. Low wages and other advantages in other countries are far greater than U.S. barriers to such imports.

While other industrialized countries have their own preference systems for developing countries, they have more restrictions on the granting of such preferences.

The European Economic Community started preferences in 1974 with a vastly different system and with vastly different results. The product coverage

appears to be more widespread, but global tariff quotas are applied on import sensitive and other items.

The EEC rules prohibit any country from supplying more than a fixed percentage of duty-free imports to any country in EEC.

Thus, the 50 percent rule is not like the U.S., where if a country supplies 50 percent of all U.S. imports of the product, there is no longer a "competitive need" and the product is removed.

The EEC Council Regulation No. 3019/76 states: "preferential imports from any one developing country in respect of a given product should not, as a general rule, exceed 50 percent of the ceiling fixed for that product." That in practice works out to 30 percent for travel goods, 20 percent for chairs, 15 percent for radios and electronic equipment.

Conclusions and Recommendations

The United States GSP program has not worked as planned. It has not necessarily aided economic conditions of workers abroad and has actually harmed workers in the U.S.

The benefits of the program have largely gone to multinationals and elites abroad. The majority of benefits have gone to a few countries who seem to need it least.

Help for poor people and poor countries must be more direct and more developmental. Some allies need help and a very direct grant is more beneficial than this export-oriented and, therefore, inflationary trade. As it stands, GSP largely helps the rich and the powerful.

If the United States believes it should not repeal GSP, considerations should be given to phasing out coverage of some countries, as well as the removal of certain products.

At the very least, the benefits should be withdrawn from those countries and products whose trade patterns are actual or potential threats to the U.S.

Some criteria could be developed to remove the most industrial and successful world exporters now thriving in world trade and give GSP only to the poorest.

Criteria for removing a country from GSP eligibility could be:

- (A) \$1 billion in exports to the U.S. and/or
- (B) \$500 million in GSP, and/or
- (C) \$1,000 per capita GNP, and/or
- (D) a trade surplus in manufactured products with the U.S.

Criteria for removing a product could be:

- (A) A product ceiling for a broader category of products such as a \$200 million ceiling for all products in a three-digit SIC category from any one country, and/or
- (B) A U.S. cut-off of a product at \$200 million of a specific item imported from all GSP countries.

Adoption of some such criteria would be a start towards fulfilling the Congressional intent of providing GSP to those countries that really haven't yet developed a trade capability, and for quantities of products that will not harm U.S. producers.

STATEMENT BY THE AFL-CIO EXECUTIVE COUNCIL
February 20-27, 1978

(Segment of the International Trade Resolution)

5. *Repeal Title V of the Trade Act which provides undue preference for imports from low-wage countries.*

Preferences or zero tariffs for imports from low-wage countries are obsolete and unrealistic. Total imports from developing countries now account for more than half of all United States imports. Manufactured imports are increasing very rapidly from these countries. Worker exploitation, abandonment of human rights and hideous working and living standards prevent potential benefits of rapidly-expanding trade from reaching the people of these countries.

Prosperity in Asia

The AFL-CIO is seriously concerned with the emphasis placed by some in Asia and elsewhere on exports as the sole or major solution to the economic, social and political problems of the less developed countries.

Export-oriented economies tend to distort demographic patterns by attracting people from rural to urban areas further complicating the prospects for agricultural self-sufficiency and agrarian reform. These export platforms shift attention away from vital local issues and needs such as education and manpower training, labor and social standards, housing and the development of free trade unions and effective collective bargaining. Also obscured is the urgent necessity to curb large outflows of private capital by the wealthy and the political oligarches.

Trade surpluses have no meaning for the workers of developing countries when they are built upon the subjugation of trade union freedoms and the denial of human dignity. Such surpluses all too frequently serve only the aspirations of political or economic elites and the profit margins of multinational corporations.

Prosperity, growth and improved living conditions for their people are the serious needs of the developing countries. The construction of strong and equitable economies requires the essential foundation of expanding domestic and internal consumer markets. Workers and their families must be able to partake in these gains and receive a fair share of the wealth they have helped to produce.

The Executive Council believes that a strong, free and democratic trade union movement is vital and indispensable to this process and will help bring an end to exploitation of people based on cheap labor.

U.S. TRADE WITH DEVELOPED AND DEVELOPING COUNTRIES
1974 and 1978

Appendix B

10 LEADING COUNTRIES USING GSP 1978
(billions of dollars)

	<u>1974</u>			<u>Total</u>		<u>1978</u>	
	<u>Exports</u>	<u>Imports</u>	<u>Balance</u>	<u>Exports</u>	<u>Imports</u>	<u>Imports</u>	<u>Balance</u>
Developed Countries	\$ 63.0	\$ 59.8	-\$ 1.7	\$ 85.6	\$ 99.0		- \$13.4
Developing Countries	32.7	39.4	- 6.7	52.9	71.3		- 18.4
Mexico	12.6	3.4	+ 9.2	6.7	6.1	0.5	+ .6
Brazil	3.1	1.7	+ 1.4	3.0	2.8	0.5	+ .2
Argentina	.6	.4	+ .2	.8	.6	0.1	+ .2
Yugoslavia	.3	.3	0	.5	.4	0.2	+ .1
Taiwan	1.4	2.1	- .7	2.3	5.2	1.4	- 2.9
Israel	1.2	.3	+ .9	1.9	.7	0.2	+ 1.2
India	.8	.6	+ .2	.9	1.0	0.1	- .1
Singapore	1.0	.6	+ .4	1.5	1.1	0.2	+ .4
Korea	1.5	1.4	+ .1	3.2	3.7	0.6	- .5
Hong Kong	.9	1.6	- .7	1.6	3.5	0.5	- 1.9
	\$23.4	\$12.4	\$ 11.0	\$ 22.4	\$ 25.1	\$ 4.3	- \$ 2.7

SOURCE: Highlights of U.S. Export and Import Trade
U.S. Department of Commerce
December 1974
December 1978

EXPORTS TO THE WORLD AND TO THE U.S.
BY 16 MAJOR SUPPLIERS* OF GSP TO U.S. PRODUCTS
(billions of dollars)

<u>Developing Countries</u>	<u>1978 Total To World</u>	<u>1978 Total to the U.S.</u>
Taiwan	\$ 12.6	\$ 5.0
S. Korea	12.7	3.9
Hong Kong	11.5	3.5
Brazil	12.7	2.8
Mexico	6.8	5.6
Israel	3.9	.7
Singapore	13.0	1.7
Yugoslavia	5.7	.4
Argentina	7.0	.6
India	7.1	1.0
Chile	2.5	.4
Peru	1.8	.6
Portugal	2.4	.2
Philippines	3.4	1.1
Uruguay	.7	.1
Romania	7.0	.3
<u>Total</u>	<u>110.8</u>	<u>27.9</u>

SOURCE: International Monetary Fund

*These countries' preferences represented 90 percent of U.S. imports under GSP.

THE PRESIDENT

ANNEX II

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Annex II to Executive Order No. 11888, as amended by Executive Orders Nos. 11706, 11934, 11974, 12032, 12041, and 12104 and Proclamation Nos. 4561 and 4632 is amended--

(a) by deleting the following TSUS item numbers:

106.70	254.56	610.66	702.47
107.48	254.58	610.71	706.47
107.65	304.40	612.40	708.57
107.80	304.58	622.40	708.91
121.15	308.35	632.60	710.36
121.55	308.55	646.82	722.55
121.56	355.20	650.83	724.35
146.12	364.14	650.89	725.32
147.36	365.05	651.13	726.90
148.25	408.40	651.45	731.10
152.54	417.22	651.51	731.30
152.58	418.24	651.62	731.50
154.40	418.78	652.98	731.60
154.55	420.78	653.25	732.62
161.53	420.98	653.51	734.20
161.69	422.24	657.30	735.09
162.11	426.34	660.42	737.35
177.12	427.08	676.20	740.75
200.06	427.16	680.52	741.15
200.91	437.24	680.54	748.15
220.50	455.16	682.60	748.40
222.34	455.30	683.15	751.15
240.10	460.60	684.10	756.40
240.12	465.15	684.70	760.38
240.21	473.32	685.40	774.35
240.30	473.50	686.24	790.07
240.34	522.71	687.30	790.59
240.50	531.21	688.30	791.17
240.56	544.11	696.10	
245.00	545.31	696.50	
245.20	546.21	702.14	
252.25	603.45	702.20	

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THE PRESIDENT

ANNEX II

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(b) by adding in numerical sequence, the following TSUS item numbers:

112.94	361.21	603.50	652.99
113.50	366.84	607.65	653.30
131.35	370.17	612.02	653.52
134.38	386.09	612.60	680.53
150.09	387.32	612.63	680.54
150.14	463.40	622.25	680.55
150.55	403.45	624.40	680.56
165.52	407.12	624.42	685.34
169.15	417.20	624.50	688.20
153.02	419.00	628.40	700.54
153.63	420.02	628.50	702.08
153.28	420.82	629.26	702.25
156.35	426.12	642.08	702.40
156.45	427.60	642.14	710.34
161.75	445.20	642.28	711.30
166.30	460.35	646.04	713.17
176.15	460.70	646.88	723.32
176.70	470.15	646.89	728.20
182.10	473.62	648.80	730.77
186.34	473.78	648.89	731.70
204.40	490.30	649.71	732.38
222.44	494.40	649.89	734.40
222.62	514.44	650.15	734.42
240.38	515.54	650.21	734.54
240.40	517.21	650.31	748.20
240.58	517.24	650.45	750.32
254.63	520.39	650.56	771.45
306.53	540.47	650.79	773.20
306.71	545.35	651.33	790.60
308.51	546.23	651.49	791.20
308.80	601.54	652.93	791.26
337.20	602.30	652.97	791.70
			792.30

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ANNEX III

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TSUS Item Number

106.70	148.72	222.10	365.05
107.48	148.77	222.34	389.61
107.65	149.50	240.02	403.58
107.30	152.43	240.10	403.79
114.05	152.54	250.12	408.40
121.15	152.58	240.16	408.75
121.52	154.40	240.19	418.05
121.55	154.55	240.21	417.22
121.56	155.20	240.30	418.24
130.75	155.35	240.34	418.78
130.40	156.40	240.50	420.78
135.51	161.53	240.54	420.98
135.80	161.69	245.00	422.24
135.90	162.11	245.20	422.76
136.00	168.15	252.25	425.84
136.30	176.33	254.56	428.34
136.80	177.12	254.58	427.08
136.92	177.72	256.60	427.16
137.40	182.90	255.85	437.16
137.71	184.65	304.04	437.24
137.75	186.20	304.40	437.64
138.05	186.40	304.44	444.10
140.21	190.68	304.48	455.16
140.25	192.85	304.58	455.30
141.35	200.06	305.22	460.60
141.55	200.91	305.28	461.15
141.70	202.40	305.30	465.15
141.77	202.62	306.52	465.70
145.08	203.20	308.30	466.05
145.53	206.45	308.35	473.32
145.60	206.47	308.50	473.50
146.12	206.60	308.55	473.52
146.22	206.98	319.01	473.56
146.54	220.10	319.03	473.82
147.33	220.15	319.05	493.21
147.36	220.20	319.07	511.31
147.80	220.25	335.50	514.11
147.85	220.35	347.30	514.54
147.88	220.37	355.04	516.24
148.12	220.41	355.20	516.71
148.25	220.48	360.35	516.73
148.35	220.50	364.14	

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ANNEX III

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TSUS Item Number			
516.75	653.25	702.20	737.30
516.76	653.47	702.45	737.35
518.41	653.48	702.67	737.50
520.35	653.70	703.20	737.80
522.71	653.85	703.65	737.95
531.21	653.93	703.75	740.10
533.26	657.24	704.34	740.30
535.31	657.30	706.60	740.34
544.11	660.42	706.67	740.38
545.31	660.44	708.57	740.75
545.37	662.18	708.91	741.15
545.33	662.33	710.36	741.20
545.65	672.10	713.15	741.50
545.81	674.56	713.19	745.08
545.85	676.20	722.55	748.12
546.21	676.23	724.35	748.15
547.41	676.52	725.32	748.40
603.45	678.50	726.70	750.05
610.66	682.60	726.90	750.35
610.71	683.15	727.31	751.05
612.03	683.70	730.25	751.10
612.06	683.80	730.27	751.15
612.15	684.10	730.29	751.20
612.40	684.50	730.41	756.40
613.15	684.70	731.10	760.38
622.40	685.24	731.30	760.63
626.22	685.40	731.50	772.03
632.60	685.90	732.62	772.35
646.82	686.24	734.10	772.51
646.86	686.30	734.20	772.97
646.98	687.30	734.25	773.10
649.75	688.10	734.30	774.35
650.83	688.12	734.34	774.60
650.87	688.30	734.51	790.07
650.89	688.40	734.56	790.39
651.01	690.15	734.60	790.59
651.13	692.27	734.75	790.61
651.45	696.10	734.87	790.62
651.51	696.35	735.09	790.70
651.62	696.50	735.11	791.17
652.84	702.14	735.20	791.80
653.02	702.15	737.25	792.50
			792.60
			792.75

TESTIMONY OF RUDOLPH OSWALD, DIRECTOR, DEPARTMENT OF ECONOMIC RESEARCH
AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS
BEFORE THE SUBCOMMITTEE ON INTERNATIONAL TRADE
OF THE SENATE FINANCE COMMITTEE
TO
REVIEW THE U.S. GENERALIZED SYSTEM OF PREFERENCES

November 25, 1980

The AFL-CIO welcomes this opportunity to discuss the many problems caused by special zero tariff privileges granted to imports from developing countries. Under Title V of the Trade Act of 1974, presidents have granted this privilege to imports of over \$20 billion on about 2700 products and parts of products, from 140 countries and territories.

The AFL-CIO believes this program, called the Generalized System of Preferences (GSP), should be brought to an end, because its developmental help has been marginal at best, its administration has been unrealistic and its effect on U.S. industry and workers has been detrimental.

The AFL-CIO congratulates Senators Moynihan and Heinz and Chafee for introducing bills that call attention to many of the key problems in the program. A combination of the best features of the bills, with some modifications, could make a major contribution to improving the operation of GSP, if the Congress should decide to retain the program.

Currently, almost three-fourths of the benefits flowing from GSP redound to only five countries. In 1979, Taiwan, Hong Kong, Korea, Mexico and Brazil were the source of 70 percent of the total imports under the Generalized System of Preferences. These countries were already competitive in world trade when the program started and were highly developed in the manufacture of goods. Thus most of the money spent in tariff forgiveness is not spent to help poor countries

develop a manufacturing capability. The poor countries continue to get poorer. Even in the poorest nations, often only the rich are beneficiaries of the GSP system. Multinational corporations, based in the U.S., Japan, Western Europe or "developing countries" are often major beneficiaries of the program, while general economic development continues as a serious problem.

This distribution of benefits was not the purpose of preferential tariffs, an idea which was started in the 1950s. The developing countries said they could not get foreign exchange and that their exports of manufactures were effectively barred by high tariffs in developed countries. Since that time, three rounds of trade negotiations have reduced U.S. tariffs substantially. Foreign exchange receipts for oil-rich and resource-rich countries are already a gigantic source of development funds. These countries, however, seek -- and some have -- GSP benefits. Poorer non-oil countries are even worse off today because of the oil squeeze -- not U.S. tariffs.

Imports of manufactures from less developed countries have risen from \$8 billion in 1973 to 26.4 billion in 1979. Trade with developing countries will obviously continue even if GSP is removed. Furthermore, the GSP program is only one of the many special import privileges or other aids available in U.S. law to developing countries. Items 806.30 and 807 of the Tariff Schedules of the United States, which allow for duty-free entry of items exported abroad for assembly or processing, have provided another import privilege. Export-Import Bank provisions, Overseas Private Investment Corporation insurance for investors in these countries, foreign aid provisions of many kinds,

support for world banking institutions, U.S. tax laws on deferral of taxes on foreign earned profits, and many other laws provide many avenues for development and for imports into the United States.

Many provisions in Title V of the Trade Act of 1974 were designed to limit imports under GSP and assure benefits to those who needed them. The President has authority to decide which products and which countries should receive the benefits. Specific limitations on the dollar value of imports of any single product or on import-sensitive imports were included among the many provisions in Title V. But the administration of the program has been seriously deficient. GSP has been carried out in isolation from other parts of trade law. The result has been unfair and damaging. We do not believe Congressional intent has been carried out.

A few examples should serve to explain our concerns: Despite the fact that Section 503 has many limitations, the operation of the program has stretched the exclusion to assure that as many imports as possible receive GSP coverage. "Import-sensitive" items are to be excluded under 503(c). The burden of proof for import sensitivity must be borne by the injured, under current administration. Thus a company or a union must spend countless hours trying to prove that an item would injure or has injured them, while the facts are available largely to those who make the decision. Thus, in 1980 even auto parts and buses are on the list of eligible items, despite the obvious fact that this industry is import sensitive.

"Import-sensitive" semi-manufactured and manufactured glass items are to be excluded under 503(c). But the glass unions have had to go in on a case-by-case basis to prove injury. "Import-

sensitive" electronic items were to be excluded, but the import of TV components and other electronic items has led to a case-by-case proof of injury, while escape clause actions were pending -- and even after their conclusion. Even items which were subject to dumping charges were put on the GSP list. Leather wearing apparel was on the GSP list even though textile and apparel were specifically excluded and the leather wearing apparel industry has been so severely injured that even the ITC finally unanimously found injury. While American workers lost jobs and were granted trade adjustment assistance the imported items continued on the GSP list. Small businesses were destroyed, but the program went on without regard for the impact.

In those cases where injury was found, sometimes the administrative agency decided on a "fractionalization" of the tariff number so some part of the product continued to come in under GSP. For example, an emergency action to remove oil drilling rigs from the GSP list took two years. After the item was officially removed, the failure to include the words "and parts thereof" on the list meant that the rigs continued to enter under GSP as unassembled parts.

But a foreign producer has no similar requirement to prove the need to add an item to the list. The U.S. worker or producer must in fact bear all the burden of proof, while the government administration encourages the import. In the past year about 59 items were published to be added with the presumption that GSP is appropriate unless an effective case is made against it. This is not, in our view, what Congress intended.

If an argument is made effectively and it has been proved that tariffs should not be reduced on an item under one part of the trade law, the American producer or union must still go to the GSP Committee to make sure that the item is not included on the GSP list under Title V.

There are so many hearings and so many proceedings and so many requirements that the administration of the program has become a bureaucratic quagmire. The combination of the use of GSP with other trade programs and the failure administratively to enforce curbs for import-sensitive industry lead to continued losses of jobs and protection.

The result is that industry is encouraged to move out of the United States to enjoy the GSP privilege and the resultant imports continue to add to problems now affecting U.S. industry and jobs.

We again thank the Committee for reviewing this program, and for the bills to ameliorate some of the problems. We urge the Committee to move toward repeal of GSP as expeditiously as possible. The AFL-CIO has long supported aid to developing countries. We continue to believe that aid should go to the needy through programs that lead to healthy development.

STATEMENT OF RUDOLPH OSWALD, DIRECTOR, DEPARTMENT OF ECONOMIC RESEARCH, AFL-CIO, ACCOMPANIED BY MRS. ELIZABETH JAGER, ECONOMIST, AFL-CIO

Mr. OSWALD. If I may.

The AFL-CIO believes that the program itself should be brought to the end because its developmental help has been marginal at best, its administration has been unrealistic, and its effect on U.S. industry and workers has been detrimental.

Senator CHAFEE. Now, I might say, Mr. Oswald, that goes beyond Mr. Samuel.

Mr. OSWALD. Yes.

Senator CHAFEE. Who—Mr. Samuel, who also is from the AFL-CIO.

Mr. OSWALD. He is with the Industrial Union Department and he spoke in behalf of a coalition, LICIT.

Senator CHAFEE. Right, because he thinks there should be some changes, but he doesn't think it should be terminated.

Mr. OSWALD. The AFL-CIO formally took a position at its last convention that the program should be terminated.

Senator CHAFEE. All right.

Mr. OSWALD. And basically for those three reasons. We believe that the bills that you introduced and that Senators Heinz and Moynihan introduced are improvements in terms of the administration of the act, but do not resolve the basic question of why we have this program.

Senator CHAFEE. I don't think you will find much sentiment for terminating the program completely here.

Mr. OSWALD. Senator, we are spending about a half a billion dollars currently for this program.

Senator CHAFEE. What do you mean, in the administration of it?

Mr. OSWALD. No; for the tariff concessions that we are providing. Currently there are approximately \$6 billion of imports that are coming in through GSP, with an average tariff concession of approximately 9 percent. So that would come to \$540 billion, approximately—million.

Senator CHAFEE. Million.

Mr. OSWALD. Million. So that the amount that we are spending is approximately half a billion.

If you look at that in comparison to what we are doing with other foreign aid appropriations, that is a very large sum of money. And most of that money is going, as you have heard, to those five countries which are the most developed of all. There are questions whether it even goes to those countries, or whether it goes to importers, or the profits of large multinational corporations who are in those countries. I don't think that is the most effective developmental process in terms of spending money through this program.

Senator CHAFEE. I'll tell you, there is the second bell. Let's recess, and I will get back to—I will come right back, and we will continue with you as a witness, Mr. Oswald.

Mr. OSWALD. Thank you, Senator.

Senator CHAFEE. Thank you.

[A brief recess was taken.]

Senator CHAFEE. All right, gentlemen and ladies, I can't promise there won't be any more votes.

All right, Mr. Oswald, I have your statement.

Why don't you proceed. I have got the gist of your approach to the whole thing, to GSP.

Mr. OSWALD. What I would also urge, if the Congress is not ready to drop the whole program—

Senator CHAFEE. I suspect that is the attitude. I would be surprised. I have not heard sentiment the other way, Mr. Oswald.

Mr. OSWALD. That the kinds of provisions both in your bill and in the bill introduced by Senators Heinz and Moynihan are an important step in terms of improving the administration of the program. I think even those could be improved upon in terms of making sure that the flow of money that is forgone because tariffs are forgiven really goes to those countries that need it the most. As I had indicated, of the half a billion dollars that is forgiven, 70 percent goes to Taiwan, Hong Kong, Korea, Mexico, and Brazil. I am not sure that the Congress, in passing aid legislation, which Congress has just extended again, would really provide most of the benefits to those five countries.

The other problem is that the program, as it is currently administered, allows many goods to be imported where import sensitivity already exists. Workers receive trade adjustment assistance because they are injured by imports of certain products. But those items are still on the list. Certain items that are currently considered as injurious, either under dumping provisions or under ITC findings—such as leather or wearing apparel—have continued to be included on the GSP list. And even where injury has been found, we find that the administrative agency sometimes fraction-alizes the tariff number. For example, we had finally succeeded, we thought, in removing oil drilling rigs from the GSP list 2 years ago only to find that, while the item was officially removed, they didn't include the words "and part thereof" on the list. That meant that oil drilling rigs continued to enter under GSP as unassembled parts.

Senator CHAFEE. Where do they come from? I am not familiar with that.

Mr. OSWALD. They were coming from Malaysia, and were being brought across in parts. They were undercutting a number of domestic producers in that product.

Senator CHAFEE. I would have thought that is one area that—

Mr. OSWALD. There were a number of items that shocked me, Senator, as I became knowledgeable about some of the things that were granted GSP, some very large manufactured products. For example, some ship drydocks were given GSP and were brought up by barge from Brazil; pianos and other items were imported. So it is a whole variety of products, as you know—some 2,700 or 2,800 products—that are divided into very minute categories.

Senator CHAFEE. Fine.

Well, thank you very much, Mr. Oswald, and we will take your remarks into consideration as we proceed with further—I suspect we will probably have further hearings on this next year. I am not sure.

Thank you.

Do you have anything else?

Mr. OSWALD. No.

Senator CHAFEE. All right.

One more vote, but let's see if we can't hear from Mr. Solter.

[The prepared statement of Myron Solter and David Simon follows:]

Before the
SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE ON FINANCE,
UNITED STATES SENATE

STATEMENT OF MYRON SOLTER, ESQUIRE,
AND DAVID SIMON, ESQUIRE, ON BEHALF OF
THE BOARD OF FOREIGN TRADE OF THE REPUBLIC
OF CHINA (TAIWAN) CONCERNING THE OPERATIONS OF
THE U. S. GENERALIZED SYSTEM OF PREFERENCES

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November 25, 1980

SUMMARY

The Board of Foreign Trade (BOFT) of Taiwan supports retention of the U. S. Generalized System of Preferences in its present form. The program has aided the diversification of Taiwan's industrial base and has benefitted the U. S.-Taiwan trade balance. The competitive need limitations adequately protect U. S. industries and provide adequate incentives for least-developed developing countries to enhance their exports.

BOFT opposes legislative changes in limitations on preferential treatment on the following grounds:

1. It has not been shown, either theoretically or empirically, that accelerated graduation or other limitations actually benefit least-developed developing countries.

2. Linkage of the competitive-need ceiling with performance of cognate domestic sectors is insensitive to microeconomic factors in exporting countries.

3. The administrative procedures needed to implement changes based on findings of market disruption or material injury are prohibitively time consuming and overly restrictive.

4. Legislative proposals which would significantly diminish the benefits afforded by the GSP program would decrease the American share of the burden of assisting less developed countries to attain economic maturity, resulting in an inequitable sharing of costs among industrialized nations.

I. INTRODUCTION

This statement in support of the retention of the U. S. Generalized System of Preferences (GSP) in its present substantive form is submitted to the Subcommittee on International Trade of the Senate Committee on Finance, on behalf of the Board of Foreign Trade of Taiwan (BOFT) by Myron Solter, Esquire, and David Simon, Esquire, of 1900 L Street, N. W., Washington, D. C. 20036. BOFT is an agency of the Ministry of Economic Affairs of the Republic of China. Messrs. Solter and Simon are duly registered as attorneys for BOFT under the Foreign Agent Registration Act.

BOFT opposes substantive changes in the GSP program that may result in a diminution of benefits received by Taiwan for several principal reasons:

1. Insofar as GSP has fostered an increase in Taiwan's exports to the United States, so it has enhanced Taiwan's imports of goods from the United States; indeed, Taiwan's imports from the United States are growing at a rate over twice that of its exports to the United States.
2. Insofar as U. S. investment in production facilities in Taiwan has been encouraged by GSP, so the program should be retained in its present form so as to satisfy the expectations of those American investors and to continue to encourage a necessary rationalization of the factors of production.

3. The present graduation mechanism suffices to encourage countries less developed than Taiwan to compete in GSP products.
4. The proposed statutory changes, even more than the current statute, attempt to resolve microeconomic questions with macroeconomic principles, and should therefore be rejected.

II. ANALYSIS OF TAIWAN'S PERFORMANCE UNDER THE GSP

Taiwan is one of the major beneficiaries of the GSP program. In 1979, total U. S. imports from Taiwan were valued at \$5,901.2 million. Of that total, \$2,526.3 million (42.8 percent) were GSP-eligible articles. Of these GSP-eligible articles, \$1,720.9 million were imported duty free (68.1 percent of GSP-eligible articles; 29.2 percent of total imports from Taiwan), while \$570.7 million were excluded because of competitive need (22.6 percent of GSP-eligible articles; 9.7 percent of total imports from Taiwan) and \$234.7 million were excluded for other reasons (9.3 percent of GSP-eligible articles; 4.0 percent of total imports from Taiwan). See Table No. 1.

Table No. 1

Taiwan's Performance Under GSP, 1979
(\$ millions)

		<u>% of Total</u>	<u>% of GSP- Eligible</u>
Total imports	\$5,901.2		
Total GSP-eligible articles	2,526.3	42.8	
Duty-free imports	1,720.9	29.2	68.1
Competitive-need exclusions	570.7	9.7	22.6
Other exclusions	234.7	4.0	9.3

Source: Total imports, Bureau of Census; other data, Report to Congress on the First Five Years' Operation of the GSP, 96th Cong., 2d Sess., Ways & Means Committee Print No. 96-58 at 180 (1980) (hereinafter, 5-Year Operation Report).

Between 1976 and 1978, Taiwan's GSP exports to the United States constituted an increasing percentage of Taiwan's total exports to the United States, increasing from 24.4 percent in 1976 to 27.8 percent in 1978 (Table No. 2). In the same period, total GSP duty-free imports from East Asia increased by 86.4 percent, while total imports from East Asia beneficiaries increased by 57.6 percent (id.).

Table No. 2

**U. S. Imports From Taiwan Compared
To Regional, Total GSP and Global
Imports, 1976-1978, With Percentage Growth
Rates For the Period (\$ millions)**

	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>
	<u>Imports</u>	<u>Dutiable</u>	<u>GSP</u>	<u>III as</u>
		<u>Imports</u>	<u>Duty-free</u>	<u>% of</u>
			<u>Imports</u>	<u>I</u>
Taiwan				
1976	2,979	327	728	24.4
1977	3,678	439	912	24.8
1978	5,161	565	1,433	27.8
% Growth	73.2	72.8	96.8	
East Asia				
1976	10,776	1,524	1,571	14.6
1977	13,376	1,854	2,177	16.3
1978	16,979	2,249	2,929	17.3
% Growth	57.6	47.6	86.4	
All GSP Beneficiaries				
1976	18,056	3,370	3,160	11.3
1977	34,662	3,800	3,878	11.2
1978	41,420	4,537	5,204	12.6
% Growth	47.6	34.6	64.7	
Total Imports				
1976	119,497	3,370	3,160	2.6
1977	145,518	3,800	3,878	2.7
1978	170,719	4,537	5,204	3.0
% Growth	42.8	34.6	64.7	

Source: 5-Year Operation Report at 150ff.

While Taiwan's trade with the United States has flourished under the GSP program, it is significant that total GSP imports from all beneficiaries have also grown at rates exceeding the growth of non-GSP imports. Thus between 1976 and 1978, total imports increased by 42.8 percent, while total GSP duty-free imports

increased by 64.7 percent (Table No. 2). These statistics demonstrate that the GSP program has benefitted not only Taiwan but also GSP beneficiaries in the aggregate.

Nevertheless, the benefits derived from GSP in no way threaten the general U. S. import trade or balance of payments. In 1978, total GSP duty-free imports constituted a mere 3.0 percent of total U. S. imports (Table No. 2). Hence on an macroeconomic basis, GSP imports can have only a negligible impact on the U. S. trade picture.

It should also be noted that Taiwan is a beneficiary of only a few GSP programs, namely, those of the United States, Japan, Austria, Australia, and New Zealand. Some six percent of Taiwan's GNP is devoted to GSP exports, and it is undeniable that preferential treatment has had a major effect on the structure of Taiwan's export-oriented industry. Between 1970 and 1979, the number of different TSUS items exported to the United States from Taiwan under GSP increased by 50 percent.

III. TAIWAN'S PERFORMANCE
UNDER GSP HAS BENEFITTED
THE UNITED STATES

Taiwan has been cited as the greatest beneficiary of the GSP; what has frequently been ignored, however, are the reciprocal benefits to the United States that result from Taiwan's enhanced ability to afford American goods and from U. S. investments in Taiwan.

Taiwan's imports from the United States in 1978 and 1979 grew substantially as a result of procurement missions sent to the United States expressly to enhance Taiwan's imports of American materials and articles. Taiwan does not send such procurement missions to any other trading partner. In 1978-1980, five procurement missions from Taiwan to the United States purchased \$4.3 billion in agricultural and industrial products (Table No. 3).

Table No. 3

Summary of Taiwan's Procurement Missions to the United States

Date of Mission	No. of Persons in Mission	No. of States Visited	Procurement (\$ millions)		
			Total	Agricultural	Industrial
1/10-3/3/78	26	19	269	200	68
6/9-7/27/78	35	16	786	314	472
11/5-12/21/78	50	22	506	360	130
6/27-8/25/79	28	20	945	345	600
3/14-5/17/80	53	22	<u>1,792</u>	<u>468</u>	<u>1,324</u>
Three-year total procurement			4,298	1,687	2,594

Source: BOFT

Note: A sixth procurement mission will be sent in March 1981.

In 1978 and 1979, total U. S. exports to Taiwan were \$5.7 billion;¹ the procurement missions in those two years purchased

¹Staff Report to the Senate Foreign Relations Committee, Implementation of the Taiwan Relations Act: The First Year, 96th Cong., 2d Sess. at 47 (Comm. Print, June 1980.)

over \$2.5 billion in goods from the United States. Moreover, between 1978 and 1979, U. S. exports to Taiwan increased by 37.0 percent while U. S. imports from Taiwan grew at less than one-half that rate (17.7 percent).²

Thus insofar as GSP has enhanced Taiwan's ability to export to the United States, so it has commensurately enhanced Taiwan's ability to import from the United States.

Moreover, as the 5-Year Operation Report notes, Taiwan, together with other Asian beneficiaries, experienced a substantial growth in investment as a result of preferential treatment. Id. at 36.

IV. RESPONSES TO LEGISLATIVE PROPOSALS

Two bills recently introduced would have a substantial impact on the GSP program: S. 3165, introduced by Senator Chafee, and S. 3201, introduced by Senators Heinz and Moynihan. BOFT opposes these bills.

In our analysis below, we argue that these bills are unnecessarily protectionist. In support of that argument, we cite the fact that there appears to be no correlation between the graduation of advanced developing countries (ADC's) and the development of cognate industries in least-developed developing countries (LDDC's):

²Id.

"[P]reliminary analysis indicates that less developed beneficiaries have not yet been able to increase their overall share of GSP benefits when at least one of the five major beneficiaries was graduated from GSP as a result of the competitive need provisions. Although lesser developed beneficiaries have been able to increase their shipments in a few individual items where competitive beneficiaries are excluded by competitive need, in most product areas more time is needed for lesser developed beneficiaries to develop the infrastructure and production facilities which are prerequisites for utilizing GSP tariff preferences." 5-Year Operation Report at 30.

Absent a correlation between graduation of ADC's and development of LDDC's, legislative proposals to encourage graduation must be seen simply as attempts to curtail the number of GSP products entering the United States. We submit that such legislation should not be enacted. As protectionist pressures mount within the United States, we urge this Subcommittee to reject these measures which would cut off preferences to many sectors of those countries that have relied most strongly on the American GSP program.

A. Analysis of S. 3165

S. 3165 proposes to amend the GSP in several significant aspects. First, it restricts the President's authority to extend preferences on products from beneficiary countries by prohibiting extension of preferences unless (1) the effects of preferential treatment will "clearly and importantly further the economic development of developing nations", and (2) "the action may not reasonably be expected to cause . . . market disruption" by affecting sales, production or employment for U. S. producers.

We submit that this revision is unwarranted. Procedurally, the administrative procedures necessary to make a reasoned determination of these factors are prohibitively time-consuming and cumbersome. Substantively, the proposal would probably decrease the number of articles subject to GSP, at a time when the United States is apparently not taking its reasonable share of the developed countries' burden as to preferences for less-developed countries. As to the latter point, the 5-Year Operation Report states:

"In terms of 'burden sharing' the United States grants duty-free treatment on a smaller share of the dutiable imports from beneficiaries than do the EC, Japan or other donor countries." Id. at 7-8.

Moreover, the United States implemented its GSP program much later than other principal industrialized nations: the EC and Japanese programs were implemented in 1971; Denmark, Finland, Ireland, New Zealand, Sweden and the United Kingdom implemented their programs in 1972; Australia and Canada implemented their programs in 1974; and the United States did not implement its program until 1976. Id. at 2-3.

Therefore, in regard to burden sharing, it would hardly be equitable for the United States to further limit the availability of GSP at this point.

S. 3165 would also prevent the designation of a country as a beneficiary if that country "has a trade surplus in manufactured goods with the United States."

We submit that this exclusion is unwarranted. The fact that a country has a trade surplus in manufactured goods does not

necessarily indicate that its overall level of development is such that GSP benefits are unwarranted or superfluous. Moreover, the President is already required to consider the level of economic development of possible beneficiaries, and under that provision he certainly considers the level and composition of trade in manufactured goods. Finally, we submit that the discretion currently incorporated in the statute should not be removed; otherwise the President may be unable to grant beneficiary status to countries otherwise deserving of preferential treatment.

S. 3165 also sets undue limits on duty-free imports. Specifically, the bill provides that duty-free status would be lost as to any article for which total duty-free imports exceed \$250 million in a single year or when over 50 percent of total U. S. imports of an article were imported from GSP beneficiaries.

We oppose these proposals on the ground that the current system of competitive-need limitations adequately ensures that products from a given beneficiary will be removed from the GSP list at the appropriate point. The current system has been criticized for using "macro-economic standards to make micro-economic determinations." Statement of Senator Chafee before the Trade Subcommittee of the House Ways and Means Committee, 96th Cong., 2d Sess. at 5 (Committee Print, Serial 96-96, 1980). The above proposal, however, would only exacerbate such tendencies in the system since it excludes all but the global total figures from the competitive need calculation.

Section IV of S. 3165 provides further limitations on preferential treatment, by linking the competitive-need limitations

to the performance of the U. S. industry producing like or directly competitive products.

We submit that this proposal is inequitable and unnecessary. First, although it purports to link preferences to the performance of the U. S. industry, the linkage is far from linear. For example, consider the case of a young domestic industry growing at a rate faster than the GNP. In that case, since the competitive need ceiling would grow only at the rate of growth of the GNP, beneficiaries would receive only part of the benefit to which reasonable economic analysis would entitle them.

Moreover, the concept of "linkage" creates significant problems in itself, since it requires a determination of what products are "like or directly competitive." As this Committee well knows, the criteria for finding products like or directly competitive are by no means certain. Thus the additional element of doubt introduced by the linkage concept would increase the uncertainties already embodied in the GSP program, making investment decisions even more uncertain than they are now.

We therefore submit that the present competitive-need structure, insofar as it looks not to particular domestic products or industries, is preferable to the linkage provision of S. 3165. Ultimately, this statute is used by businessmen to make financial decisions. These people -- American investors as well as Chinese -- seek certainty and security in statutes; they need a framework for rational investment. As the statute is amended with more opportunity for administrative decisions in unclear areas, investment necessarily stagnates.

We also oppose the redesignation procedure of section 4 of S. 3165. Under the current statute, as the 5-Year Operations Report notes, "[t]he annual modifications in product coverage within the U. S. program introduce a further element of doubt." Id. at 36; see also id. at 33-34. However, the cure offered by S. 3165 would place prohibitive procedural and substantive restrictions on obtaining redesignation. Moreover, since it has not been shown that graduation of ADC's is a sufficient inducement for investment in LDDC's, we submit that there is no sound economic justification for placing additional barriers on redesignation.

Finally, we also oppose the emergency termination procedures of section 5 of S. 3165. These provisions obviously generate considerable uncertainty. In addition, we submit that the "material injury" test, as it has been applied in U. S. antidumping and countervailing duties laws, is inappropriate in a fair-trade context. Moreover, if this provision is incorporated, we urge that the time period for the preliminary determination be extended from 30 days to 60 days to enable beneficiaries adequate time to obtain counsel and prepare for an administrative inquiry. Many industries in LDC's lack the infrastructure that would enable them to move swiftly when their GSP status is in jeopardy. We believe that a special solicitude should be shown to these infant industries by assuring them of an adequate opportunity to protect their trade interests.

In summary, we oppose S. 3165 for eliminating Presidential discretion as to global GSP imports and as to designation of

eligible status, for increasing uncertainty as to competitive need, for imposing unwarranted restrictions on redesignation of eligibility, and for setting inappropriate standards and time limitations for emergency petitions. We believe that S. 3165 in toto embodies a strongly protectionist sentiment and represents a repudiation of this country's commitment to encourage the development of infrastructure and industry in the less developed countries of the world.

B. Analysis of S. 3201

We oppose S. 3201 insofar as it extends the competitive need limitation from particular products to product sectors. We submit that the current practice of graduation by products rather than by broad sectors is economically preferable since maturity in one five-digit TSUS category does not imply maturity in the Major Group of which that product is a part. In fact, the current program significantly enhances the entire structure of Major Groups by encouraging diversification within the Group. The proposal, on the other hand, would tend to discourage sectoral development by permanently denying GSP treatment when one or a small group of products within a Major Group exceeds the indexed \$100 million limitation.

Thus, in brief, this proposal again uses macroeconomic principles to treat microeconomic situations and should be rejected.

V. CONCLUSIONS

Taiwan is a principal beneficiary of the GSP program; as such, it demonstrates the success which the GSP program can engender and support. We urge, on behalf of Taiwan, that the incentives for investment and development found in the current GSP statute not be diluted by explicit or implicit protectionist revisions. Moreover, insofar as the American GSP statute is part of an international set of preferences for developing countries, we urge that the United States not renege on its commitment to bear its full share of the burden of assisting international development. Finally, we submit that the United States benefits from the GSP program through increased export markets for American products and the continued competitiveness of U. S. goods in the world market by virtue of the rationalization of factors of production. Thus, while the United States shares the burden of GSP, so it also shares the benefits.

We therefore urge the retention of the GSP program in its present form and oppose proposals to decrease the availability of duty-free treatment for imports from less-developed countries.

Respectfully submitted,

MYRON SOLTER

DAVID SIMON

Counsel for the Board of Foreign
Trade of the Republic of China

STATEMENT OF MYRON SOLTER, ESQ., AND DAVID SIMON, ESQ., BREGMAN, ABELL, SOLTER & KAY, ON BEHALF OF THE BOARD OF FOREIGN TRADE OF TAIWAN

Mr. SOLTER. Good morning, Mr. Chairman. I am Myron Solter, and on my left is Mr. David Simon. We are appearing on behalf of the Board of Foreign Trade, which is an agency of the Ministry of Economic Affairs of Taiwan. We are duly registered as attorneys for BOFT, Board of Foreign Trade, under the Foreign Agents Registration Act, and a copy of our current registration statement is on file with the committee.

We appear to support retention of the present GSP system. I would like to summarize our four major points, then ask Mr. David Simon to summarize the supporting considerations, and to discuss briefly the proposed legislation.

Now, our main points are, first, graduation should be determined by the competitive process itself, not by additional governmentally imposed criteria. When productive resources become available in a least developed developing country, especially competent labor and raw material base, the LDDC will produce and will export GSP products. But until those preconditions exist, graduating the advanced developing countries will not benefit the least developed developing countries.

And the existing system is quite adequate to encourage the least developed developing countries to develop GSP products for export. There is a natural sequence. Historically it has been from Japan to Korea and Taiwan and Hong Kong, from Taiwan and Hong Kong and Korea to Southeast Asia, South America, Africa, and other lesser developed countries. On the whole, when one of these countries lesser developed than Taiwan develops a product in the GSP category, it is most often at a lower cost and is highly competitive with the same product from Taiwan, where costs are rising commensurately with the increase in economic levels.

So Taiwan will graduate from the GSP system, but it will graduate in a natural way when it is no longer able to compete with these products from Southeast Asia, South America, Africa, and other similar places.

Senator CHAFEE. Are any of the so-called Southeast Asian countries developing to the extent that they are becoming a competitor of Taiwan?

You mentioned Hong Kong, but it seems to me that is a pretty sophisticated country to start with.

How about Indonesia, for example?

Mr. SOLTER. To some extent, Indonesia, Senator. More importantly, however, at the present time would be Singapore and Malaysia in the Southeast Asian area. They are developing a more sophisticated labor force, more sophisticated handling of technology and light manufacturing, and attracting more investment by American and other advanced country firms. Indonesia continues to have problems of labor motivation, training labor skills, and so on.

Senator CHAFEE. All right, go ahead.

Mr. SOLTER [continuing]. Our second major consideration is that macroeconomic measures should not be used to resolve what are essentially microeconomic problems in GSP.

Now, in 1978, the total duty-free GSP imports into the United States equalled only 3 percent of all U.S. imports, and that must be less than 1 percent of our gross national product.

Senator CHAFEE. Well, I must say, I didn't understand the figure that was given by the administration on 4 percent of nonoil imports. If you have \$200 billion of imports total, and \$6 billion under GSP, that pretty easily translates into 3 percent, and somehow the administration in that testimony talked about 4 percent of nonoil imports came from GSP. That doesn't add up.

Did you hear that testimony?

Mr. SOLTER. I heard it, Senator, but I must say I am as confused as you are.

Senator CHAFEE. I did not get that.

Mr. SOLTER. And I do regret that I can't really enlighten you on that subject because I don't understand it either.

Senator CHAFEE. Is anybody from the administration—how did you get that? Where do you get the 4 percent?

Ms. SCHAFFER. \$200 billion was total figures.

Senator CHAFEE. Right.

Ms. SCHAFFER. 1979 figures, of which approximately \$45 billion was oil, leaving approximately \$155 billion in nonoil imports.

Senator CHAFEE. Right.

Ms. SCHAFFER. Of which \$6 billion comes out at about 4 percent. It is a different base.

Senator CHAFEE. Oh, I see.

Mr. SOLTER. Well, if I may continue, then, specifically with regard to Taiwan, the GSP exports from Taiwan to the United States contribute very significantly to the rapidly increasing purchase by Taiwan of imports from the United States. Mr. Simon will give the numbers on that, and it is quite impressive. It is a major consideration, I think, in considering Taiwan—

Senator CHAFEE. Do we have a balance-of-trade surplus with Taiwan, the United States?

Mr. SOLTER. No, sir, we presently have still a deficit, but the deficit is shrinking rapidly.

Finally, in Taiwan considerable investment has been made by American firms, other foreign firms, and by Chinese firms specifically in production facilities for GSP products. Now, investment in most of these items is not a matter of 2 or 3 months and a relatively small amount of money. In some cases it is a substantial amount of capital and investment of a significant period of time in productive facilities. The people doing this have expectations. These expectations could very well be defeated by changes in the ground rules applicable to eligibility of products for GSP and so on.

Senator CHAFEE. Are you suggesting that the modest import duty that we would have would—if Taiwan were removed from the GSP list and went under the normal import duties, that that would materially affect Taiwan?

Mr. SOLTER. To a considerable extent, the products which have originated as GSP-stimulated items from Taiwan have represented new market opportunities derived principally from the absence of an import duty in the United States.

Senator CHAFEE. I'm sorry to interrupt you again. There is one more vote. We are in the final 7 minutes. We will just have to recess, and then I will come right back. We will continue with you.

Mr. SOLTER. Thank you.

Senator CHAFEE. Thank you.

[A brief recess was taken.]

Senator CHAFEE. All right, Mr. Solter.

Mr. SOLTER. Senator, I was in the process of answering your question as to what would happen to the GSP products from Taiwan if Taiwan were graduated.

A large number of the GSP products did come about in direct response to the duty-free treatment stimulus. Once established in trade, undoubtedly if that duty-free treatment were removed, some of those products would continue to be traded. However, there is also no doubt that some of them would no longer be competitive in the American market. The determination could only be made, since each product has its own competitive terms, could only be made by a product-by-product analysis of the situation.

Senator CHAFEE. What was the total volume that came into the United States under GSP from Taiwan last year, do you know?

Mr. SOLTER. Senator, I will ask Mr. Simon to answer that, and I was about to ask him to continue with the rest of the presentation in any event.

Senator CHAFEE. Fine.

Mr. SIMON. The total volume, Senator, of the GSP duty-free imports was \$1.4 billion.

Senator CHAFEE. From Taiwan.

Mr. SIMON. From Taiwan. It is about 27½ percent—excuse me, that is 1978. It is about 27½ percent of total GSP imports. In 1979 it was \$1.7 billion from Taiwan.

Senator CHAFEE. Now, you gentlemen realize that in the legislation that I have submitted—and I am not familiar with Senator Heinz' and Senator Moynihan's legislation in detail, but in the legislation I submitted, there is no suggestion that we would eliminate the GSP. Instead, there are changes in the duty-free limits in the manner of reaching those, plus some administrative changes making it a more rapid process whereby American industries that are affected can have a hearing and a decision, and also I pressed on this subdivision business.

Now, could you address yourself to those points?

Mr. SIMON. Senator, we would be happy to.

On the matter of subdivisions, the Board of Foreign Trade of Taiwan has never requested a subdivision under the GSP proceedings, and has never directly sponsored, in fact, a petition for GSP treatment, to the best of our knowledge. We do not take a position on the subdivision question.

With respect to the limitations on preferential treatment that are embodied in section 4 of your bill, the bill links the growth or decline of individual U.S. industries to the dollar limitation on the competitive-need situation. We believe that that sort of linkage in broad terms works an inequity in that when you have got a young domestic industry that is thriving and there is competition from a GSP beneficiary, the beneficiary—the competitive need for the ben-

eficiary does not rise by the same amount as the domestic production rises. It only rises by the amount of the gross national product.

So in that sense, we believe that the limitation on preferential treatment of section 4 of your bill poses an inequity.

In addition, the bill sets a dollar limitation with respect to GSP imports from all beneficiary countries. We believe that that limitation is an example of the misapplication of macroeconomic principles to a microeconomic situation. When you have several countries competing, several beneficiary countries competing in one product line, when you have a small country competing with a number of more advanced developing countries in that product line, the effect of removing beneficiary treatment on a product for all beneficiary countries is ultimately to harm the least developed of those developing countries. We believe that the competitive need limitations adequately graduate by product, by specific product individual countries and do leave the field free for the less developed developing countries.

In regard to your section 5 on emergency petitions for market disruption, we are particularly concerned about the ITC 80-day reasonable cause investigation because developing countries have by and large, do not have an adequately well established infrastructure to enable them to react that quickly to an ITC investigation. We would hope that the 80-day period for the initial investigation could be expanded to 60 days perhaps without increasing the total time length of the investigatory period. But we believe that those less developed countries do need the additional time to consult with counsel, to consult with the ITC, to marshal their facts.

Senator CHAFEE. Now, that wouldn't—I don't think that problem would come up with Taiwan, for example. I mean, they have got very sophisticated counsel and—

Mr. SOLTER. Senator, having for years represented numerous industries in Taiwan, I must respectfully disagree. We still have enormous difficulty in getting facts and information promptly from the industries and the government agencies concerned in dealing with these cases. More time is really required.

Senator CHAFEE. All right, gentlemen, anything else?

Fine. Thank you very much.

Mr. SOLTER. Thank you.

Senator CHAFEE. Why don't Mr. Frankovich and Mr. Fleishman come up as a panel, if you would, please.

All right, Mr. Frankovich, why don't you proceed.

[The prepared statement of George Frankovich follows:]

HEARING BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL TRADE
SENATE COMMITTEE ON FINANCE

ON REVIEW OF THE
GENERALIZED SYSTEM OF PREFERENCES

1. Statement of George R. Frankovich, Vice President/Executive Director, Manufacturing Jewelers & Silversmiths of America Inc. (MJSA), The Biltmore Plaza Hotel, Kennedy Plaza, Providence, RI 02903, (401) 274-3840.
2. MJSA is a national trade association of more than 2,000 manufacturers of precious and costume jewelry, silverware, findings, and allied products, including suppliers to this industry.
3. The witness will testify as to the operation of the GSP program as it relates to the American jewelry manufacturing industry and, particularly, as to the rationale, authority, and probable effects of the U.S. Trade Representative's recommendation to the President that certain articles should be designated as eligible articles for the purposes of the GSP. Specifically the witness will address the situation where the competitive-need value limitation is exceeded for a five-digit TSUS Item and the President changes the designation of eligible articles within that Item, i.e., to create five new five-digit Items. The revision occurred without consultation by USTR with domestic industry representatives, with the result that the newly-created five-digit Items are largely without any visible technical or economic logic. Moreover, the decision comes without careful assessment of its probable adverse economic effects on this domestic industry which is already sustaining considerable injury from both overall jewelry imports and general economic conditions.
4. The witness will recommend that this Committee review the GSP with a view toward correcting certain structural and administrative weaknesses that have contributed to this industry's rather indiscriminate treatment by the USTR and others and the adverse impact on business and employment that will result.

Mr. Chairman, my name is George R. Frankovich. I am Vice President/Executive Director of the Manufacturing Jewelers and Silversmiths of America. We are the principal national trade association representing more than 2,000 manufacturers of precious and costume jewelry, chain, silverware, findings and other allied products, as well as suppliers to the manufacturing industry. Our membership normally employs about 77,000 workers throughout the United States, or about 85 percent of the total jewelry manufacturing industry workforce.

This industry is of particular importance to several regional economies. In examining Rhode Island's economic mix, it is readily apparent that the production of jewelry and silverware is an integral component. With more than 800 firms, it is the State's largest manufacturing industry (and second largest employer next to government), accounting for roughly one out of every fourteen jobs. Furthermore, when measured in terms of employment, the State's 36,000 jewelry production employees represent approximately 45 percent of the total U. S. jewelry industry workforce. Clearly, given the overall dimensions of Rhode Island's contribution to the national effort, it should not be surprising that trends in jewelry and silverware nationally play a major role in determining the economic well-being of the State.

Jewelry manufacturing is also of particular importance to the greater New York City metropolitan area because of its geographic concentration in Manhattan, Brooklyn, and northern New Jersey. Approximately 1,300 firms, normally employing some 24,000 people, are located in this region. While they may not be said to constitute an employer of the same local proportion as is the case in Rhode Island, nevertheless the New York/New Jersey production workforce does constitute some 31 percent of the industry's national total. Together, therefore, these three states account for nearly 75 percent of this industry's employment nationally.

According to the 1977 Census of Manufactures, precious and costume jewelry production in the U. S. totalled more than \$4 billion (in product shipments) for that year. Rhode Island accounted for more than \$1 billion of this total, while the New York/New Jersey area originated more than \$1.7 billion in product shipments for the same period. In

general, Rhode Island has long been regarded as the center of costume jewelry manufacturing in the U. S., while New York has for more than a hundred years been recognized as the precious jewelry capital of this country. While these characterizations are generally accurate, it should be pointed out that the industry in each area is composed of a variety of businesses producing both precious and costume jewelry products.

Of late this industry has experienced a downturn of major proportions as revealed in the discussion which follows. The jewelry industry has long been recognized as seasonal and subject to fluctuating trends. Beyond these regular variables, however, a series of unique developments in the past year have left the manufacturing sector in a devastated condition. The extent of this malaise is illustrated by the following:

1) During the first six months of 1980, demand from the jewelry industry has been off sharply compared with the same period one year ago, according to major precious metals suppliers. This is evidenced as well in reports from the Bureau of Mines that state for the first six months of 1980, total gold usage in jewelry and related arts was off 63 percent from the same period one year before. Similarly, silver usage in the same period for 1980 in jewelry and sterling ware is off 36 percent from the first half of 1979. (See Appendices A and B). Based upon this sharp decline in the use of key raw materials, it is evident that the jewelry and silverware manufacturing industry in the United States has experienced a highly unfavorable year.

2) This decline in business is reflected in the industry employment picture. In New York where the precious jewelry industry is concentrated, employment in union shops has been off alarmingly during 1980. According to Local No. 1, IJWU, unemployment in the trade in the New York area is currently at about 25 percent. This is a vast improvement over the period of April through June when they estimate the figure approached 40 percent to 50 percent. Early in 1980, many casters closed down completely advising laid off workers to check back periodically from week to week to see if there were jobs. Most others reduced their staffs to skeleton crews. A major supplier of precious metals to the jewelry industry in this area reported that, based on reduced customer demand from this industry between January and June, he had reduced his manufacturing workforce by

47 percent from levels of one year ago. This firm alone accounted for the loss of 70 jobs in that area. Because of the seasonal characteristics of the industry, the situation has somewhat improved now but it is still, by any reasonable standard, extremely poor by comparison with recent years at this time.

In Rhode Island, where costume jewelry manufacturing employs about 30 percent of the total manufacturing workforce of the State, unemployment in the industry currently stands at about 12 to 15 percent. Official Department of Labor statistics show an unemployment rate averaging 12 percent but these figures do not include about 5,000 people (constituting about 15 percent of the total industry workforce) who are employed in job shops which work under contract to manufacturers and whose operations are immediately curtailed as a result of the level of production cutback that has been characteristic of this period of time. In Rhode Island then, as well, the situation has improved from the period of April, May and June where unemployment rates reached as high as 25 percent. But this improvement still reflects a situation far worse than the same period last year and, indeed, the past few years.

Furthermore, official estimates include only businesses classified strictly under SIC Codes 3911 (Precious Jewelry), 3914 (Silverware), 3916 (Findings), and 3961 (Costume Jewelry). More properly, however, one should also include firms whose business is substantially jewelry-related, but may fall into another SIC classification. This would include suppliers to the manufacturing jeweler of such products as plastic beads and novelties, as well as manufacturers of packaging materials and others.

3) This downturn has been further documented by the American Jewelry Distributors Association. The table (Appendix C) shows that jewelry sales during 1980 have been off from their levels of 1979. This trend is particularly evident during the period April through July 1980 when sales were off by as much as 36 percent for the same period one year before. Sluggish sales have at the same time contributed to sagging inventories of wholesalers further reflected in the table. Most significantly, the table illustrates that the result of these two phenomena; sluggish sales and growing inventories, is that the ratio of sales to inventory swelled to alarming levels, reaching a peak of 2.57 in

June of this year. Thus, by the standard barometer used to measure the health of the industry in terms of sales, it is clear that 1980 has been considerably worse than 1979.

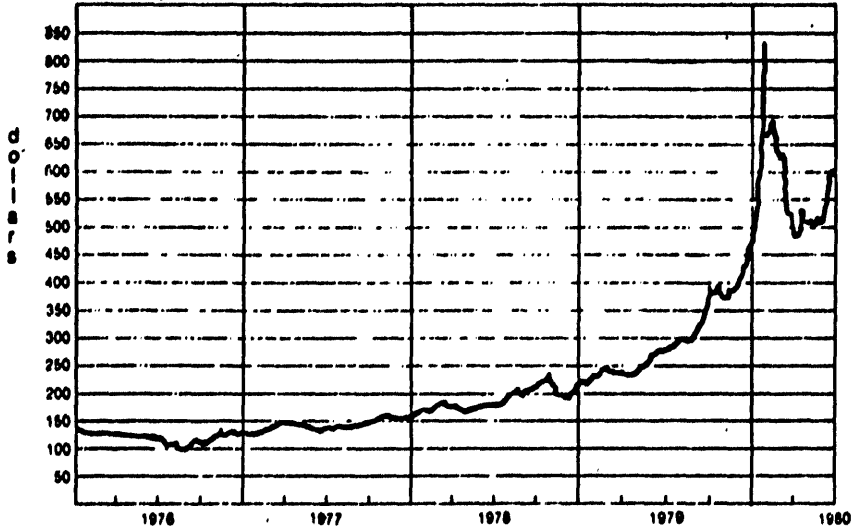
4) As another indication of industry health during 1980, the research department of the Jewelers Board of Trade reports that the jewelry manufacturers' bankruptcies measured in dollars lost by creditors jumped from nearly \$3 million in the first nine months of 1979 to an alarming \$65.8 million for the same period in 1980. During these same nine months, jewelry retailers' losses increased from \$8.7 million to \$11.3 million. The manufacturing segment of the industry has been, therefore, devastated by the effects of business conditions in 1980.

What are the factors which have contributed to the industry's recent malaise? There seems to be little doubt that the recession has played a major role. By their very nature, jewelry and silverware are discretionary goods. Therefore, on a period of stagnant or declining real income, it represents one area where the consumer can cut back on his expenditures. In fact, during the first half of 1980, real disposable income declined at a 2.5 percent annual rate. During the same period, real consumption expenditures on jewelry fell at a whopping 40 percent annual rate. Furthermore, due to the recent pattern of price increases, the basic necessities of life such as food, shelter, and energy are accounting for a rising proportion of household income. Thus consumers have experienced a shrinkage in the percentage of their income available for discretionary purchases. Put in a more "down to earth" fashion, in recent months not only has the whole pie been shrinking, but jewelry's slice of the whole pie has also been pared.

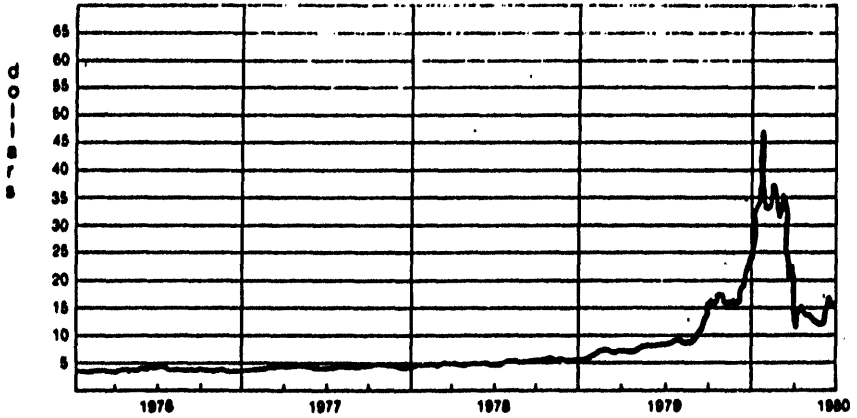
In addition to this difficult economic environment, jewelry and silverware manufacturers have also been faced with rising costs and volatility in the price of key raw materials. The charts that follow provide graphic illustration of the rapid run-up and wide swings in gold and silver prices over the past year. In January 1979, gold prices were hovering around \$225 per ounce; twelve months later the price reached \$886 per ounce. Currently, the price of gold on the spot market is around \$631 per ounce. Moreover, this period of increase has been characterized by constant uncertainty as the price fluctuated wildly in both directions. On December 1, 1979, gold was \$415 per ounce. Seven weeks later on January 21, 1980, it was \$850 per ounce. During this

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GOLD (Price per ounce)



SILVER (Price per ounce)



period, daily fluctuations of \$50 per ounce became common, and occasionally ranged as high as \$100. In silver markets the pattern was much the same with prices on the spot market moving from \$7.50 per ounce in March of 1979 to \$34.50 per ounce one year later, trading at \$52.25 per ounce in Chicago on January 21, 1980. Currently, the price of silver on the spot market is around \$18.70 per ounce.

As the main industrial user of these metals, the jewelry manufacturer is most adversely affected by these trends. Industrial users can and should be expected to cope with upward trends in the price of gold and silver, no matter how strong as long as the movement is sustained and related to tangible supply-demand market factors. What creates intolerable problems for industrial users is not the basic price trend, but the sharp week-to-week and even day-to-day price swings caused by market responses to events which are largely unrelated to economic considerations. These extraordinarily volatile price swings have made the traditional gold content pricing assumptions of industrial users almost impossible. For the precious jewelry manufacturer in particular, the problem has been acute because the price of his product is determined substantially by the cost of the precious metal materials from which it is crafted, and because the industry as a whole and the consumer have long been accustomed to fixed or relatively stable gold and silver prices. The result in the jewelry industry, therefore, has been chaos in transactions between manufacturers, wholesalers and retailers, declines in sales, even more substantial cutbacks in manufacturing operations, and considerable reductions in employment in an industry of particular importance to certain regional economies.

Preceding these developments of the past 12 months, however, is the third and, we would argue, the most significant factor which has provided a highly unfavorable context for their conjunction. As the data in Appendices D and E demonstrate, the American jewelry manufacturing industry has experienced a growing foreign trade deficit over the past five years. Imports of precious and costume jewelry have steadily increased their share of the domestic market. For calendar year 1979, imports of precious jewelry reached 25 percent and imports of costume jewelry 16 percent of apparent consumption. At the same time, precious and costume jewelry entering the United States represented

32 percent and 17 percent of domestic production for those products. Thus over the past five years, there has occurred a steadily increasing share of market for imported jewelry products, and at the same time, a decreasing share of market for American-made jewelry products. At the same time, the domestic industry's competitiveness in international trade remained weak. For calendar year 1979, exports of precious jewelry constituted only 4.4 percent, and exports of costume jewelry only 5.8 percent of total domestic production. Exports by the domestic industry have remained relatively constant as a share of domestic production.

It is our position that all three of these factors must be held responsible for the unfavorable state of affairs that has prevailed in this industry over the past year. Raw materials, price conditions and economic trends have together served to accentuate the impact of growing imports and stagnant exports. Hence even if one were to discount the influence of gold and silver price movements as a worldwide phenomenon affecting production and consumption everywhere; and to discount the influence of domestic economic conditions as a factor impacting on all industries to some degree; one is still left with the realization that domestic jewelry manufacturers had already been progressively eliminated from a substantial share of the available markets by imported products and persistent non-tariff barriers to trade. One may presume that tariff reductions on jewelry products scheduled through 1987 under the Tokyo Round--averaging 53 percent overall--will only further enhance the competitive advantage already enjoyed by foreign manufacturers of these products.

Although GSP imports have and will have an effect on the labor requirements of the domestic jewelry industry, the duty reductions scheduled in the Tokyo Round will exacerbate the problem. The expected results of these reductions were succinctly stated in an MTN Study by the International Trade Commission:

"Based on information supplied by the STR, the average depth of cut for this ISAC subsection (ISAC Subgroup 26D-Jewelry) is 67 percent, which will probably cause imports to increase appreciably." (USITC Investigation No. 332-101, MTN Studies - 6 - Part 5, Industry/ Agriculture Sector Analysis, August 1979 at 340)

That these reductions will affect labor in the jewelry industry was confirmed in a study prepared for the Committee On Finance, U. S. Senate. Estimates were calculated for an exhaustive list of 367 U. S. industries of which 25 were determined to have reduced labor requirements greater than one percent if there were an immediate multilateral tariff reduction of 30 percent. The jewelry industry ranked 12th on this list of 25. (MTN Studies - 3- The Impact of Multilateral Trade Liberalization on U. S. Labor, June 1979, at II 14). A list of firms certified for Trade Adjustment Assistance is at Appendix F.

Particularly troublesome in the context of foreign trade has been the impact of the Generalized System of Preferences on the domestic industry. It is our position that certain aspects of the structure and administration of the GSP have resulted in this industry's rather indiscriminate treatment under this program with attendant loss of business and jobs resulting. Moreover, unless the thrust and direction of the program's impact on this industry is modified, further harm of considerable proportions will surely occur.

Before detailing the basis of our concern, I wish to state that our objection is not to the concept upon which the GSP is based. The idea of helping developing nations diversify their economies and increase their export earnings, so as to provide them with a source of investment capital and foreign exchange for purchasing imports of basic necessities, is laudable indeed. Encouraging economic development through foreign trade, so as to reduce developing nations' dependence on foreign aid would seem to be a legitimate objective of foreign policy.

However, it would appear that in its application the program's value as an instrument of foreign policy has been weighted so heavily in certain instances that its impact on U. S. foreign trade has been extremely damaging and totally unsatisfactory from the perspective of domestic industry. This is certainly the case insofar as the jewelry manufacturing industry is concerned. Put simply, this industry has been thrust into the position of shouldering a grossly disproportionate share of the burden of foreign policy support for selected other nations in the past year.

More specifically, the GSP has hurt the jewelry industry in two ways. First, the structure of the program is designed to be product-and country-specific. Nowhere is

provision made for adjustments based on total imports of a particular article from all GSP-designated beneficiary countries. As a result, the program appears to be weighted towards protecting the interests of beneficiary countries at the expense of the domestic industry. So long as individual beneficiary countries do not exceed the value competitive-need limitations (measured either in terms of dollars or a share of total imports for that product), country/product eligibility remains unchanged. This situation is unbalanced.

A review of available import data for the past two years clearly demonstrates that duty-free imports from GSP beneficiary countries collectively account for a substantial share of total U. S. imports of five jewelry articles from all countries annually. As Table 1 illustrates, items such as costume jewelry and unfinished chain of both precious and base metals are imported in substantial volume under duty-free treatment through the GSP. Overall, GSP beneficiary countries have collectively accounted for 61 percent of total U. S. imports of these five product categories in the past two years. Hence while the program appears to have achieved its stated objectives in terms of the beneficiary countries, its performance would suggest that the interests of domestic producers of like or similar goods have been overlooked. While LDC's economies have been diversified through the development of light manufacturing industries, and while they have been able to increase their export earnings so as to acquire a source of investment capital and foreign exchange, their achievement has come at the direct and considerable expense of domestic industry which has lost substantial share of market during the same period.

Without exception, GSP beneficiary countries enjoy the advantage of a major labor cost differential vis-a-vis U. S. manufacturers of like or similar goods. For 1977, estimated hourly compensation for production workers in manufacturing were as follows for selected GSP countries: Israel \$2.68/hour; Hong Kong \$.99/hour; Taiwan \$.67/hour; Korea \$.64/hour. This compares with \$7.60/hour for the U. S. Hence, even before duty-free advantage is applied, their products enjoy considerable competitive advantage over those of U. S. producers.

We should remember that Congress established definite provisions to guide the President in providing duty-free treatment for eligible articles from developing countries. Prominent among them is the anticipated impact of such action on U. S.

producers of like or directly competitive products. In light of the impact that imports and particularly GSP-imports of the articles listed below have had on segments of this industry, we would request that this committee evaluate the program's operation in its first five years to determine if in fact the domestic impact criterion has been properly defined and faithfully applied by the President and his designated representatives.

TABLE 1
GSP IMPORTS OF SELECTED ELIGIBLE ARTICLES

<u>TSUS ITEM</u>	<u>1978</u>		
	<u>TOTAL (\$000's)</u>	<u>GSP (\$000's)</u>	<u>(% Total)</u>
740.3800	83,427	50,934	61%
740.5500	520	373	72%
740.7000	5,351	2,138	40%
740.75	6,710	5,121	76%
740.80	5,333	2,139	40%
TOTAL	\$101,341	\$60,705	60%

<u>TSUS ITEM</u>	<u>1979</u>		
	<u>TOTAL (\$000's)</u>	<u>GSP (\$000's)</u>	<u>(% Total)</u>
740.3800	86,949	50,019	58%
740.5500	712	330	46%
740.7000	21,481	18,063	84%
740.75	4,804	2,731	57%
740.80	8,889	4,268	48%
	\$122,835	\$75,411	62%

Administration of the GSP insofar as the jewelry industry is concerned has been even more troublesome in another instance. I refer specifically to the decision of the President in Executive Order 11204 of March 27, 1980, to subdivide TSUS Item 740.10 for GSP purposes into five separately eligible articles; as follows (effective March 31, 1981):

<u>TSUS Item No.</u>	<u>Brief Description</u>
740.11	Rope-style necklaces and neck chains, almost wholly of gold
740.12	Mixed link-style necklaces and neck chains, almost wholly of gold
740.13	Other necklaces and neck chains, almost wholly of gold
740.14	Other jewelry of precious metals, other than necklaces and neck chains
740.15	Other jewelry, other than chief value of precious metals

This decision apparently came as the result of politically motivated inquiries on behalf of the Israeli jewelry industry by the Government of Israel almost two years before. A letter affirming this, acquired under the Freedom of Information Act, is attached as Attachment 1.

On behalf of domestic industry, this association has consistently raised objection to this decision on several grounds as enumerated below. To date, however, these objections have been to no avail, with the result that the subdivision in question is scheduled to take effect on April 1, 1981. We remain deeply distressed by this decision for the following reasons:

1) The intent of Congress appears to have been violated. The legislative history of the Trade Act of 1974 reveals that Congress intended to place limits on beneficiary status through the concept of competitive need limitations. Once a beneficiary country achieved a certain level of efficiency in a particular sector, the specified products imported from that country were to be removed from this preferential status. Congress defined the standard for this level of achievement as either (a) the shipment by that country of more than 50 percent of the total U. S. imports of that product for one

calendar year or, (b) the shipment by that country of more than a certain dollar value (\$41.9 million for 1979) which is adjusted annually to reflect the growth in the U. S. gross national product (GNP). These safeguard provisions were intended to provide some measure of protection to domestic industries, whose sensitivity to imports was to be carefully evaluated in terms of impact on employment, production, investment, capacity utilization and profits. Moreover, concern for U. S. industry is further evidenced in the elaborate provisions of the Act for designating eligible articles and beneficiary countries. Clearly, Congress did not intend the trade advantages offered in the GSP to be accorded to foreign countries to the detriment of United States industry.

Yet the changes in TSUS Item 740.10 mandated by Executive Order No. 12204 would work the deleterious impact on U. S. industry that the legislature sought so hard to preclude. It would do so by vastly increasing the quantities of jewelry which could be imported duty-free into the United States. As more categories are created, each with its own competitive need limitations, United States jewelry manufacturers will be compelled to compete against the larger and larger quantities of foreign jewelry coming into the country duty-free. This situation is clearly at odds with the legislative intent which undergirds the Generalized System of Preferences.

2) The limits of Presidential authority appear to have been exceeded. The subdivision of TSUS Item 740.10 was done for the purpose of providing the petitioner, Israel, with a means to multiply its GSP benefits even while it was pressing the annual limit imposed by the competitive-need value limitation formula, i.e., for the purpose of circumventing the competitive-need value limitation. Granting this type of subdivision would seem to run counter to the principal mechanism established by Congress to protect domestic industry. Indeed, that would appear to be its very purpose. Yet the Trade Act unambiguously mandates that a country automatically loses its preferential treatment status with respect to an article imported above a set ceiling. We would argue that the President lacks discretionary authority to strip or not to strip a country of preferred status--which is both the intent and the effect of this action. (See Attachment 2)

3) Israel's continued eligibility in terms of jewelry seems questionable. Congress clearly intended that the competitive need formula would provide assurance that GSP

benefits would be accorded only to developing countries which were not yet internationally competitive in specific products, i.e., the least competitive producers. In this regard, the Report of the President on the First Five Years Operation of the GSP shows Israel to rank sixth in the share of total GSP imports in 1978. If GSP imports of jewelry are any indicator, Israel will no doubt retain this position in 1979 and 1980.

As to competitive position in the product concerned, the Israel Export News quotes Shmuel Ben-Toviv, Israel's Trade Commissioner to the U. S. as stating:

"The jewelry industry is Israel's fastest growing export sector and the U. S. is our strongest market."

The Israel Export News goes on to state:

"Export growth in the jewelry industry has been above expectations over the past five years. From less than \$3 million in 1975, overseas sales climbed to more than \$80 million in 1979 worldwide, with \$65 million exported to the U. S. This sales growth has produced an expanding infrastructure with over 70 factories in existence today compared to 20 in 1976. The labor force has doubled, reaching 2,500 workers."

* * *

"Among the advantages American buyers find in Israel are excellent quality and design, comparable prices to European imports, duty-free importation under the Generalized System of Preferences (GSP) and flexible production schedules which allow the factories to fill specialized or short-run orders."

Specifically, Israel's exports to the U. S. of chains of precious metals for use in jewelry (known as unfinished chain) has had a phenomenal growth in the last three years zooming from \$360 thousand in 1976 to \$17.3 million in 1979. Imports from Israel of this GSP article (TSUS 740.70) were 16.7 percent of total imports in 1976 but accounted for 80.4 percent in 1979 and exceeded the competitive-need limitation for the first time. (See Attachment 3)

The prospective subdivision of TSUS Item 740.10, which includes finished chain, will create three new gold chain categories giving the Israeli exporters four options for entering such articles as GSP eligible. Thus, the competitive need limitation currently exceeded by exports of unfinished chain (TSUS 740.70) could be circumvented merely by attaching fasteners to the chains and entering the merchandise under one of the newly created categories for finished chain.

Fast economic advances in the jewelry sector contribute to the high standing of Israel in the economic indicators included in the GSP Report of the President. Appendix VII.D. Economic Indicators for Beneficiary Developing Countries of the President's Report shows that Israel is sixth in the list of 31 countries in share of manufactures in total exports (77.3 percent), sixth out of 30 countries in per capita gross national product and, as stated earlier, sixth out of 31 countries in duty-free exports to the U. S. It should be noted that Israel's GNP is higher than any of the five countries that exceed it in share of exported manufactures and duty-free imports. In fact, the five countries which have a higher GNP (Brunei, Bermuda, French Polynesia, New Calendonia and Bahrain) have attained their ranking mainly because of oil or tourist based income.

Furthermore, one of the criteria for a country's continued eligibility is its assurance and presumably its subsequent demonstration that the United States will have equitable and reasonable access to its markets and to its basic commodity resources. This is the basic principle of reciprocity. Yet, in fact, Israel severely curtailed its issuance of import licenses for gold and silver jewelry in 1980. According to one firm queried by a representative of the U. S. Embassy in Tel Aviv, it had become virtually impossible to obtain an import license for jewelry regardless of its origin. The source cited as reason that the Israeli Government's policy was to protect the jewelry industry which was experiencing considerable difficulties due to high gold prices and credit restrictions imposed by the Government. A copy of the DOC Incoming Telegram of January 30, 1980, is enclosed as Attachment 4.

Finally, Israel's continued eligibility would seem questionable in light of the fact that the Government chose not to sign the Codes which were an integral part of the MTN. Without this adherence, the Israeli position would appear to be purely self-serving and not in keeping with the spirit of the MTN.

4) USTR procedure surrounding this decision appears questionable. At no time did domestic industry have an opportunity to comment formally on the nomenclature or the criteria by which the subdivision of TSUS 740.10 would be conducted. By not consulting industry experts directly, USTR was apparently satisfied to create five new categories

that lack intrinsic logic and fail to accomplish the intended objectives. As one illustration, the nomenclature "mixed link style necklaces and neck chains" was adopted, ostensibly to provide customs with a means to distinguish visually machine-made from hand-made chain. The supposition was that all machine-made chain was of uniform link types, while mixed-link chain was made by hand. A simple check of U. S. producers of these products would have revealed the supposition to be completely false. Chain of mixed links is frequently machine-made. This can be described as sloppy decision-making at best.

Furthermore, we have every reason to believe that this decision to subdivide an article for GSP purposes was wholly political in nature. It would appear that a commitment was made at the highest levels of government to use GSP as an instrument of foreign policy support toward Israel. The petitions, hearings, and testimony filed by many parties over the past 18 months would therefore appear to be mere rationalizations after the fact--an apparent facade.

This Association endeavors to make no comment on U. S. foreign policy in the Middle East or elsewhere. Such matters are well beyond this organizations' purview of interest. However, it would appear that in this instance, the decision by the USTR places a wholly disproportionate share of the burden of supporting one nation on this particular industry. Such a burden should be shared by our economy in general. Moreover, it does so at a time when, as discussed earlier, prevailing unfavorable business conditions are fully reflected among manufacturing jewelers. As such, therefore, it is doubly damaging because it falls on currently weak shoulders.

5) The rationale cited by USTR for the decision flies in the face of both available facts and simple logic, and establishes a dangerous precedent. They cite as principal reason for the subdivision action increases in the price of gold with the resultant effect that Israel's exports were fast approaching the competitive-need value limitation. Yet in fact, during the period of time at issue (1974-1978) in the Israeli petition to USTR of June 21, 1979, while the price of gold increased 122 percent, the value of Israeli gold jewelry exports increased 1700 percent. In other words, a sub-

stantial increase in the volume of production, and not simply increased raw materials prices, were responsible. Obviously increased production should in no way be construed as justification for expansion of the competitive-need limitation. Rather, to the contrary it should provide the basis for graduation.

Secondly, USTR maintained that GSP duty-free imports were declining slightly as a share of total U. S. imports of TSUS Item 740.10 standing at ten percent in 1979. Based upon this, they proposed to undertake the subdivision so as to increase the competitive advantage enjoyed by GSP countries vis-a-vis non-GSP competitors--i.e., to restore their lost share of market. Yet nowhere in this calculation is the position of domestic industry considered. It is incongruous to argue that point without weighing the impact of overall imports of that article (25 percent market penetration in 1979) on domestic industry. Nevertheless, this faulty logic prevailed in the decision.

Thirdly, the USTR reasoning establishes a dangerous precedent. Since gold prices and petroleum prices have risen in tandem, one might argue based on the same reasoning that all tariff classifications for petroleum based products should be similarly subdivided. Following the same example, any extraordinary circumstance that resulted in dramatic increases in raw materials prices--a drought in Argentina precipitating sudden and substantial increases in leather prices, for example--could serve as justification for a similar decision. Thus beyond the question of fact in terms of the actual extent of gold price increases, there remains the troubling question of precedent that is established. In every such instance, the Congressionally mandated concept of graduation--country by country, product by product--would seem to be called into question.

Finally, we have been advised by USTR and others that the decision must stand--that the Executive Order is for practical purposes irreversible except through legal or legislative means. Yet this too seems unreasonable. In spite of serious questions as to its legal basis; its rationale; its domestic impact; its incompatibility with the will of Congress, etc., the decision stands. The domestic industry finds this incomprehensible.

On behalf of the domestic industry we offer these observations on GSP's impact to illustrate our point that the program has evidenced structural and administrative flaws that require revision. We are pleased that the U. S. Senate has decided to review the

program's first five years of operation, and we hope this committee will direct its scrutiny toward the following questions:

- 1) What are the appropriate criteria and formula for country "graduation"?
- 2) What is the appropriate structural mechanism to offset the cumulative impact of all GSP imports of a particular product even though no one country has exceeded the competitive-need value limitation?
- 3) What is the probable effect of the subdivision of TSUS Item 740.10 on U. S. producers of like or similar goods?
- 4) What are acceptable limits of domestic import impact? Does not the subdivision of TSUS Item 740.10 threaten to exceed those limits without justification, necessity, and even proper consultation and scrutiny?

Along these lines, S3165 sponsored by Senator Chafee seeks to correct some of the basic flaws in GSP. S3166 specifically addresses itself to our problem of dividing a number so as to substantially increase GSP duty-free imports without adequate study. We, of course, support these bills and urge their passage.

S3201, the bill sponsored by Senators Heinz and Moynihan, has also come to our attention a few days ago. While we have not had a chance to study the impact of this bill on our industry, we generally applaud its thrust - to create another "graduation" possibility and add another safeguard for broad segments of American industry.

Thank you, Mr. Chairman.

Appendices and Attachments

Appendix A - U. S. Gold Consumption in Industry & Arts

B - Silver Consumption by End Use

C - AJDA Statistics

D - Comparison of Precious Jewelry Imports/Exports and Domestic Production/Consumption

E - Comparison of Costume Jewelry Imports/Exports and Domestic Production/Consumption

F - Trade Adjustment Assistance in the Jewelry Industry

Attachment 1 - Israeli letter

2 - Congressional Research Service Advisory Opinion

3 - Israel Export News

4 - Department of Commerce cable

APPENDIX AU.S. GOLD CONSUMPTION IN INDUSTRY & ARTS
(troy ounces)

	<u>1st quarter 1980</u>	<u>2nd quarter 1980</u>	<u>1st six months 1979</u>
JEWELRY & ARTS			
-Karat Gold.....	295,000	295,000	2,256,000
-Fine Gold for Electroplating.....	8,000	5,000	32,000
-Gold Filled & Other..	<u>52,000</u>	<u>50,000</u>	<u>361,000</u>
TOTAL JEWELRY & ARTS ...	355,000	351,000	2,649,000
DENTAL	95,000	135,000	611,000
INDUSTRIAL			
-Karat Gold	8,000	8,000	64,000
-Fine Gold for Electroplating	164,000	153,000	797,000
-Gold Filled and Other	<u>112,000</u>	<u>117,000</u>	<u>542,000</u>
TOTAL INDUSTRIAL USE ...	285,000	278,000	1,403,000
INVESTMENT	48,000	1,000	45,000
(includes fabricated bars, medallions & coins)			
 TOTAL	 <u>782,000</u>	 <u>765,000</u>	 <u>4,708,000</u>
 (Total 1st 6 mos. 1980) ---	 1,547,000		

IT APPEARS THAT GOLD CONSUMPTION IN THE FIRST SIX MONTHS OF 1980 IS ONE-THIRD OF THE SAME PERIOD OF LAST YEAR.

APPENDIX B

SILVER CONSUMPTION BY END USE

The comparative figures of consumption by category as reported by the Bureau of Mines are as follows:

Final Use	1st Qtr. 1980	2nd Qtr. 1980	2nd Qtr. 1979	1st 6 mos. 1980	1st 6 mos. 1979
Electroplated Ware-----	1.1	1.0	2.2	2.1	5.4
Sterling Ware-----	2.4	2.4	3.7	4.8	8.9
Jewelry-----	1.5	1.4	1.4	2.9	3.1
Photographic Materials-----	12.3	12.9	18.5	25.2	36.7
Dental and Medical Supplies--	.6	.4	.6	1.0	1.3
Mirrors-----	.2	.1	.5	.3	1.1
Brazing Alloys and Solders--	2.4	2.2	2.7	4.6	7.1
Electrical and Electronic Products:					
Batteries-----	1.7	1.5	1.0	3.2	2.7
Contact and Conductors--	6.8	6.9	8.8	13.7	20.5
Bearings-----	.1	.1	.1	.2	.2
Catalysts-----	1.0	1.0	1.8	2.0	5.4
Coins, Medallions and Memoratives-----	1.3	1.3	1.1	2.6	1.6
Miscellaneous-----	.2	.2	.5	.4	.7
TOTALS*	31.5	31.5	43.0	63.0	94.7

*Totals may vary due to rounding-off

Source: Bureau of Mines

The average price during the second quarter, 1980, of \$23.971 per ounce compares with \$7.587 a year earlier. This year's high was \$48.00 on January 21; the low was \$10.80 on May 22. The average price for 1979 was \$11.09, \$5.40 for 1978, \$4.62 for 1977, \$4.35 for 1976, \$4.42 for 1975 and \$4.71 for 1974. The average price through September 1980 was \$21.770.

APPENDIX CJEWELRYSALES-TO-INVENTORY RATIO (1979-1980)
(1979 = 100)

	<u>SALES</u>		<u>INVENTORY</u>		<u>RATIO</u>	
	<u>1980</u>	<u>1979</u>	<u>1980</u>	<u>1979</u>	<u>1980</u>	<u>1979</u>
JANUARY	66.3	45.1	100.4	90.6	1.51	2.01
FEBRUARY	90.6	75.7	112.0	96.2	1.24	1.27
MARCH	94.6	95.5	113.7	90.9	1.20	0.95
APRIL	61.4	84.5	117.3	83.9	1.91	0.99
MAY	54.6	82.7	108.8	82.3	1.99	1.00
JUNE	47.3	73.9	121.4	107.4	2.57	1.45
JULY	64.0	83.7	122.5	106.1	1.91	1.27
AUGUST	98.5	122.9	122.1	107.9	1.24	.87
SEPTEMBER	132.2	133.2	125.1	105.1	0.95	.79

SOURCE: American Jewelry Distributors Association

APPENDIX D

COMPARISON OF PRECIOUS JEWELRY IMPORTS/EXPORTS
AND DOMESTIC PRODUCTION/CONSUMPTION
1967-1979

	<u>Domestic Production</u>	<u>Imports</u>	<u>Exports</u>	<u>Apparent Consumption</u>	<u>% of Appr. Cons.</u>		<u>% Domestic Production</u>	
					<u>Imports</u>	<u>Exports</u>	<u>Imports</u>	<u>Exports</u>
1967	\$633.2	\$13.9	\$39.7	\$607.3	2.3	6.5	2.1	6.3
1968	725.5	21.4	38.1	709.0	3.0	5.4	2.9	5.3
1969	753.4	30.5	40.2	743.8	4.1	5.4	4.0	5.3
1970	770.9	33.0	42.6	761.3	4.3	5.6	4.2	5.5
1971	821.5	39.4	31.4	829.5	4.8	3.8	4.7	3.8
1972	981.8	54.7	40.5	996.0	5.5	4.1	5.5	4.1
1973	1174.7	71.3	70.2	1176.0	6.1	6.0	6.0	6.0
1974	1233.4	93.6	72.7	1254.2	7.5	5.8	7.5	5.9
1975	1330.0	110.9	74.9	1365.9	8.1	5.5	8.3	5.6
1976	1465.0	178.0	85.0	1558.0	11.4	5.5	12.1	5.8
1977	1835.0	310.0	90.0	2055.0	15.2	4.3	16.8	4.9
1978	2100.0	530.0	118.7	2511.3	21.1	4.7	25.2	5.6
1979	2725.0	863.7	119.9	3468.8	24.9	3.5	31.7	4.4

APPENDIX E

COMPARISON OF COSTUME JEWELRY IMPORTS/EXPORTS
AND DOMESTIC PRODUCTION/CONSUMPTION
1967-1979

	<u>Domestic Production</u>	<u>Imports</u>	<u>Exports</u>	<u>Apparent Consumption</u>	<u>% of Appr. Cons.</u>		<u>% Domestic Production</u>	
					<u>Imports</u>	<u>Exports</u>	<u>Imports</u>	<u>Exports</u>
1967	\$338.2	\$35.3	\$7.7	\$365.8	9.6	2.1	10.4	2.3
1968	396.7	37.2	6.4	427.5	8.7	1.5	9.4	1.7
1969	421.8	37.6	6.9	452.5	8.3	1.5	8.9	1.6
1970	450.9	48.2	6.6	492.5	9.8	1.3	10.7	1.5
1971	479.6	47.2	6.2	520.6	9.1	1.2	9.8	1.3
1972	441.7	52.2	7.0	486.9	10.7	1.4	11.9	1.6
1973	494.7	63.5	10.7	547.5	11.6	2.0	12.8	2.2
1974	544.2	80.8	16.6	608.4	13.3	2.7	14.8	3.0
1975	598.6	87.2	22.2	663.6	13.1	3.3	14.6	3.7
1976	658.5	111.0	28.0	741.5	14.9	3.8	16.8	4.2
1977	760.6	126.0	31.0	855.6	14.7	3.6	16.6	4.0
1978	861.3	142.8	44.5	959.6	14.8	4.6	16.6	5.1
1979	962.0	166.2	55.8	1072.4	15.5	5.2	17.3	5.8

APPENDIX FTRADE ADJUSTMENT ASSISTANCE IN THE JEWELRY INDUSTRY

Jacoby-Bender	C	4/14/76
Kriesler Mfg. Co.	C	4/21/77
Latek Watch Case Co.	C	8/31/77
Joseph J. Mazer & Co.	C	4/27/78
Cohan-Epner Co., Inc.	W	8/18/78
Adrian Pearl Mfg. Co., Inc.	C	1/30/79
Crislu Corp.	C	3/23/79
Brier Mfg. Co., Inc.	C	7/2/79
Dante Jewels, Inc.	C	8/3/79
Jewel Trend Button Corp.	C	8/27/79
Dorst Mfg. Co.	D	9/11/79
M & M Jewelry Creations	C	9/13/79
Child's Mfg. Co., Inc.	C	10/30/79
Iberia Jewelry Design, Inc.	W	11/9/79
Daedalus Jewelry Corp.	C	12/7/79
Marvin Wernick Co.	C	1/18/80
Hedison Mfg. Co.	C	2/5/80
Kramer Jewelry Creations	C	3/24/80
I.D. Watch Case Co., Inc.	C	5/19/80
Magco Plastics, Inc.	C	5/23/80
F & T Jewelry Co., Inc.	C	5/19/80
Orofino Fine Jewelry Inc.	W	5/9/80
Montclair Jewelry Mfg. Corp.	C	5/20/80
Taina Creations	C	5/30/80
The Wright Touch Inc.	C	6/17/80
Messenger	Due	7/15/80

C = Certified

D = Denied

W = Withdrawn

Due = Pending



MINISTRY OF INDUSTRY, TRADE AND TOURISM

Jerusalem, February 6, 1979

No. _____

Dear Steve,

I am writing in reference to our meeting of Tuesday, December 5, 1978. You will recall that at that meeting, one of the topics of discussion was the Government of Israel's concern that imports from Israel of gold jewelry (TSUS Item No. 740.10) were fast approaching the competitive need limitation of the generalized system of preferences. As you know, if that limitation is reached, Israel will lose its right to import gold jewelry into the U.S. duty-free.

Year-end Department of Commerce import statistics indicate that our expressed concerns were not unfounded. In 1978, imports of gold jewelry from Israel, falling under TSUS Item No. 740.10, amounted to \$32.9 million, only \$4.4 million short of the 1978 competitive need limitation of \$37.3 million. It is expected that the jewelry industry in Israel will continue to expand and that the price of gold jewelry will continue to rise, as a consequence. It is highly probable that the competitive need limitation will be reached by Israel sometime in 1979 or 1980.

In view of this probability, we hereby formally request that TSUS No. 740.10 be revised by subdividing the categories into several new TSUS classifications. Such revisions will allow Israel - and other exporting nations similarly situated - to spread jewelry exports over several TSUS classifications, thereby reducing the aggregate value of imports entering under any one particular TSUS category.

We believe that a subdivision of Item No. 740.10 is warranted for the following reasons:

The rapid rise in the value of Israel's gold jewelry exports to the U.S., while to some extent the result of expansion of Israel's jewelry industry, is in large part the result of the rapid escalation of the price of gold. In January 1975, the month the G.S.P. was signed into Law, gold was selling for \$170.80 per ounce on the London Market. Today that same ounce of gold sells for \$233.50. Approximately 33% of the increase in Israel's jewelry exports is thus the result solely of price escalation and not expansions of the jewelry industry. It would, therefore, be unfair and not in keeping with the spirit of G.S.P. to penalize Israel and other G.S.P. countries merely because the price of gold has risen so dramatically.

Without the benefit of duty-free entry of its products into the U.S., Israel's gold jewelry industry, and we assume the gold jewelry industry of other lesser developed countries, will be unable to compete for the U.S. market with developed countries such as Italy. Loss of the U.S. market would be a serious blow to this industry, which is of growing importance to Israel's economy. Because almost 50% of all jewelry produced in Israel is made by hand, the industry is extremely labor intensive. It has thus served as a vehicle for absorption of new immigrants and minorities. Moreover, because jewelry can be hand made in small scale

units requiring little in the way of infrastructure, many jewelry producers have established operations in lesser developed areas of the country. Israel's gold jewelry industry can continue to expand only if G.S.P. benefits are continued. Actually, revision of the tariff schedule in order to allow gold jewelry to remain on the G.S.P. is a vital concern to Israel's jewelry industry in particular and to the nation in general.

Revision of TSUS Item No. 740.10 will also be a benefit to the U.S. First, little, if any, gold jewelry is produced in the U.S. What production of jewelry there is in the U.S. tends to be costume jewelry, which does not compete with gold jewelry. In this sense, revision of Item 740.10 will not prove detrimental to U.S. producers. More importantly, however, a revision which allows gold jewelry to enter the U.S. duty-free will benefit U.S. consumers by assuring them of a source of inexpensive fine jewelry.

Revision will also bring the tariff schedules more into line with present day reality. As now constituted, Item 740.10 is an ill-defined basket category covering virtually all jewelry items other than those made of silver. A basket category may have been appropriate when imports of gold jewelry were relatively insignificant, however, over the past several years gold jewelry has become extremely fashionable and as a result imports have soared. For example, in just one year from 1976 to 1977, import of jewelry under TSUS Item 740.10 grew from \$163.5 million to \$286.5 million, an increase of almost \$123 million.

Given this rapid rise in imports, it is clear that Item 740.10 is not sufficiently distinct. A subdivision of the item will, therefore, permit better control over growing imports. For one, it will allow better statistical analysis. It will also permit a narrowing of focus in the event a U.S. gold jewelry industry should develop and eventually require some form of import protection.

In view of the foregoing, we suggest the following revisions of TSUS No. 740.10:

- 740.10 - gold chains cut to specific length made by machine
- 740.11 - gold chains cut to specific length made by hand
- 740.12 - fine jewelry mounted with precious stones
- 740.13 - other gold jewelry
- 740.15 - other (This will cover jewelry made of metal other than silver and gold.)

We believe that the President has the authority under G.S.P. provision under the Trade Act of 1974 to implement the above revision. However, in the event it is determined that Congressional action is required, then we suggest the following interim breakdown until such time as Congress can act:

- 740.10 - other
- 740.1020 - gold chains, cut to specific length, made by machine
- 740.1025 - gold chains, cut to specific length, made by hand
- 740.1030 - fine jewelry mounted with precious stones
- 740.1035 - other gold jewelry
- 740.1040 - other

3.4
This interim classification would, of course, require the President to designate each 7-digit item as an "Article" eligible for G.S.P. treatment.

We believe that there is a need for the above suggested revision of Item 740.10 and we trust you will act upon our request at your earliest convenience as this is a matter of considerable concern to the Government of Israel.

Thank you for your cooperation.

Yours sincerely,


Dr. Yaakov Cohen
Director, Foreign Trade
Deputy Director General

Mr. Stephen Lande
Assistant Special Representative
Office of the Special Representatives for Trade Negotiations
1800 G Street, N. W.
Room 711
Washington, D. C. 20506



Washington, D.C. 20540

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THE GENERALIZED SYSTEM OF PREFERENCES: SUBDIVISION OF ELIGIBLE ARTICLES

**Prepared at the request of
Honorable Claiborne Pell**

**Larry Eig
Legislative Attorney
American Law Division
August 29, 1980**

**The attached has been prepared for the personal use of
the Member requesting it in accordance with his direc-
tion and is not intended to represent the opinion of
the author or the Congressional Research Service.**

THE GENERALIZED SYSTEM OF PREFERENCES: SUBDIVISION OF ELIGIBLE ARTICLES

Title V of the Trade Act of 1974 (19 U.S.C. §§ 2461-65) establishes the Generalized System of Preferences (GSP), whereby the President may provide duty-free treatment for any eligible article from any beneficiary developing country. 19 U.S.C. § 2461. The President designates which countries qualify as beneficiary developing countries according to several specified criteria and after notifying Congress of the outcome and bases of his decision 19 U.S.C. § 2462. Certain enumerated countries are barred from being designated, and certain categories of countries, such as OPEC members and Communist nations, only under limited circumstances. Id.

The President also initiates the process for designating eligible articles. 19 U.S.C. § 2463(a). He does this by publishing and furnishing the International Trade Commission with lists of articles for possible designation. Id. To be eligible, articles must be directly imported from a beneficiary developing country and meet certain minimal requirements relative to the percentage of value attributable to the materials and labor of the exporting country. 19 U.S.C. § 2463(b). Specified articles are prohibited from designation. 19 U.S.C. § 2463(c). After lists are forwarded, formal procedural requirements must be met. 19 U.S.C. § 2463(a).

These include receiving the advice of the Commission, which must first make specified inquiries and conduct public hearings (19 U.S.C. 2151); seeking advice from executive departments and other sources (19 U.S.C. 2152); and affording interested parties an opportunity to be heard in public hearings to be conducted by a Presidentialy designated agency or international committee (19 U.S.C. 2153). No final designation may be made by the President until he receives the Commission's advice and a summary of the public hearings (19 U.S.C. 2154).

Duty-free treatment accorded under the Generalized System of Preferences may be withdrawn, suspended, or limited by the President with respect to any article or country after reconsideration of the factors set forth for original designation. 19 U.S.C. 2464(a), (b). Furthermore, whenever the President determines that any country has directly or indirectly exported to the United States during a calendar year a quantity of an eligible article (1) having an appraised value in excess of \$25,000,000 as adjusted by increases in GNP since 1974, or (2) comprising 50 percent or more of the appraised value of the total imports of that article, that country ceases to be treated as a beneficiary developing country with respect to that article unless the President makes and publishes certain determinations. 19 U.S.C. 2464(c). These include finding that (1) there has been an historical preferential trade relationship between the United States and such country, (2) there is a treaty or trade agreement in force covering economic relations between such country and the United States, and (3) such country does not discriminate against, or impose unjustifiable or unreasonable barriers to, United States commerce.

Presently, no duty free treatment under the Generalized System of Preferences may extend beyond January 3, 1985. 19 U.S.C. § 2465.

"Article" is not defined for GSP purpose in the Trade Act of 1974. The pertinent Senate Finance Committee Report, however, states that the term would in

general refer to the five-digit tariff item numbers of the Tariff Schedules, exceptions being made if necessary to insure that an "article" is a coherent product category. S. Rep. No. 1298, 93rd Cong., 2d Sess. (1974). In accord H. Rep. No. 571, 93rd cong., 1st Sess. 86 (1973).

Nowhere does the Trade Act or its legislative history specifically refer to "subdivision" of an article pursuant to the GSP. Rather that device is most prominently mentioned in Executive Order No. 11888, which implements the GSP:

Since not every article within the group represented by an item number of the Tariff Schedules of the United States is eligible for duty-free treatment under a Generalized System of Preferences, it is necessary to subdivide some of the existing item numbers.

Concern for domestic industry permeates the GSP. The President is directed to have due regard for the anticipated impact on United States producers in extending any duty-free treatment. 19 U.S.C. 2461. No article may initially be declared eligible until the International Trade Commission has made numerous detailed analyses of prospective domestic impact of designation. 19 U.S.C. 2151(c). Articles found to be import sensitive in the context of the GSP are to be excluded from eligibility lists. 19 U.S.C. 2463. Several categories of such articles are specifically excluded. Id. Also, no article is eligible for duty-free preferential treatment for any period during which it is the subject of any import relief or national security measure under section 203 of the Trade Act of 1974 (19 U.S.C. § 2253) or sections 232 or 351 of the Trade Expansion Act, (19 U.S.C. §§ 1862, 1981) respectively. It cannot be designated at any time while such actions are in effect, and if, subsequent to its designation, the President takes any import relief or national security action affecting the article, the preference is terminated. Section 203(f) further

provides that if the Commission finds under section 201(b) (19 U.S.C. § 2251) that a serious injury to a domestic industry is resulting from the extension of preferences under the GSP, the President may terminate the preference without taking other import relief action, if such action would provide an adequate remedy for the injury found.

All of the above controls entail some degree of executive discretion. Title V does contain one crucial nondiscretionary check on the domestic impact of the GSP, however. That check is the ceiling found in 19 U.S.C. § 2464. A country automatically loses its beneficiary developing country status with respect to any articles which it imported in excess of the statutory limit for the previous year. By the terms of the statute, a country may be excepted from this sanction only if the President makes specified findings within a specified time frame.

Subdivision in the context of the above-cited executive order seems in concert with the Congressional intent to protect industry. By careful scrutiny and modification of existing items prior to designation, the President is encouraging the GSP, but only after due regard for the impact on domestic industry. Subdivision of items on the Tariff Schedule which are currently designated as eligible articles for the GSP likewise may seem consistent with Congressional intent in certain circumstances. For example, a hypothetical item -- children's games -- may encompass many different types of products -- rollerskates, jacks, jumprobes, board games. Beneficiary developing country X may have exported to the United States \$60,000,000 worth of children's games in the preceding year during which the GSP per article per country ceiling was \$50,000,000. Of that amount \$51,000,000 may have been rollerskates. In order to retain some of the GSP benefits without having to cut back rollerskate exports, country X may petition to subdivide "children's games" into "rollerskates" and "other children's games," delete "rollerskates" from the

eligibility list, and thereby take advantage of the GSP for "other children's games." Granting such an action may both foster the GSP and benefit the domestic industry. The purpose of the GSP to further development of X's rollerskate industry would be fulfilled and that industry could thereafter stand on its own. Granting the petition may also arguably "limit application of duty-free treatment . . . with respect to any article," i.e., children's games. 19 U.S.C. 2464.

The situation is far different when a country, pressing the annual limit, petitions to subdivide an article in such a manner as to multiply its GSP benefits. Beneficiary developing country Y may have had \$49,000,000 of children's games exports in a year the GSP per article per country ceiling was \$50,000,000. Of that \$25,000,000 may have been rollerskates, \$10,000,000 jacks, \$5,000,000 jumpropes, \$5,000,000 board games, and \$5,000,000 other games. In order to maintain favorable treatment for all of its industries, country Y may petition to subdivide "children's games" into "rollerkates," "jacks," "jumpropes," "board games," and "other games."

Granting that type of subdivision obviously runs counter to, and, indeed its sole purpose would seem to be to avoid, Congress' main built-in protection of domestic industry. The Trade Act unambiguously mandates that a country automatically lose preferential treatment status with respect to an article imported above a set ceiling. No executive discretion to strip or not to strip a country of preferred status is granted.

Such a subdivision may be legally suspect for several reasons. First, it is unclear where in the Trade Act of 1974 the President is granted authority to do indirectly what he clearly cannot directly achieve. Once an article is designated as eligible, the President may only "withdraw, suspend, or limit" application of the GSP to it. 19 U.S.C. § 2464. The type of subdivision at issue appears not to qualify as any of those three types of actions. "Subdivision" or "modification" of articles is not included among the Executive's choices.

Alternatively, the subdivision may be characterized as an attempt to add new articles to the eligibility list without complying with the applicable procedures of 19 U.S.C. 2463 (if, indeed, those procedures were not followed). As previously mentioned, the Senate and House reports contemplated that "article" for the GSP would mean item in the Tariff Schedule. The subdivision at issue resulted in new Tariff schedule items, and, therefore, new "articles," even though no new goods are involved. More importantly, subdividing an article into five new categories potentially quintuples the dollar impact on domestic industry. So far as domestic industry is concerned "article" equals an annual limit per country's worth of duty-free competition. The statutory scheme requires any new article to be carefully scrutinized and reviewed for domestic impact. Review is apparently undertaken with the understanding that the dollar impact will be the ceiling set forth in the statute. To allow the monetary impact to compound indefinitely through numerous subdivisions after initial review makes that carefully prescribed procedure at best speculative. In sum, the type of subdivision here at issue is not a "subdivision" at all, but rather a "proliferation." To say that it is a subdivision because the same goods are involved is misleading. At least equally as important as the identity of goods is to "article" is the dollar impact on the domestic economy it represents, and that financial aspect is greatly multiplied.

The granting of the subdivision may also appear to be a clear abuse of discretion undertaken only to circumvent the Congressionally prescribed import limits. That the price of the materials incorporated into the finished eligible goods had risen could be deemed irrelevant as Congress already built in an adjustment for inflation by providing for increases in the \$25,000,000 as the gross national product rises. Also, it is certainly plausible that Congress contemplated providing

ad hoc limit increases for goods affected by unusually high increases in the price of a particular commodity but rejected such a system as too unwieldy or thought that domestic industry, equally hit by the price increase, would need more protection because of it. Even if Congress overlooked the impact of a commodity price increase on the GSP limit, the authority for and choice of solution apparently lies with Congress, not the President.

One provision of law that may be a noteworthy vehicle in challenging a subdivision is section 604 of the Trade Act of 1974. 19 U.S.C. § 2483. It directs the President "to embody in the Tariff Schedules of the United States the substance of the relevant provisions of this Act, and of other Acts affecting import treatment, and actions thereunder." The changes in the Tariff Schedules may possibly be characterized as not being "actions thereunder" because they were outside the substance of any foreign trade act.

Do not hesitate to call should you desire further information.



Israel Export News

Press Release from: Government of Israel Trade Center,
350 Fifth Avenue, New York, NY 10001 (212) 560-0661

For Immediate Release

Contact: Irene Ribner

ISRAEL'S JEWELRY INDUSTRY EXPANDS
PARTICIPATION IN U.S. TRADE SHOWS

New York, N.Y. Israel's jewelry manufacturers are strengthening their participation at U.S. trade shows during the upcoming market season. Previously, the manufacturers exhibited twice a year at the New York R.J.A. This summer they will also be attending the Chicago R.J.A. and the Dallas Jewelry and Giftware Show. Shmuel Ben-Tovim, Israel's Trade Commissioner to the U.S. summed up the reason for this new development, "The jewelry industry is Israel's fastest growing export sector and the U.S. is our strongest market. Therefore, we plan to expand our distribution throughout this country and take advantage of the regional shows in order to obtain maximum exposure and sales."

Export growth in the jewelry industry has been above expectations over the past five years. From less than \$3 million in 1975, overseas sales climbed to more than \$80 million in 1979 worldwide, with \$65 million exported to the U.S. This sales growth has produced an expanding infrastructure with over 70 factories in existence today compared to 20 in 1976. The labor force has doubled, reaching 2500 workers. Many of these factories are situated in development areas, providing an economic base to communities in the Northern

-more-

Galilee and the Negev desert.

The demand for Israeli jewelry particularly handmade and machine-made gold chain, is high in the U.S. Over 150 U.S. buyers attended the Tel-Aviv Jewelry Fair in April, 1980. Among the advantages American buyers find in Israel are excellent quality and design, comparable prices to European imports, duty-free importation under the Generalized System of Preferences (GSP) and flexible production schedules which allow the factories to fill specialized or short-run orders.

At the upcoming RJA in New York, 28 manufacturers will exhibit in Albert Hall at the Sheraton Center from July 26-30, 12 will be in Chicago's Expocenter from August 9-11 and 6 in Dallas' Market Hall from August 31-September 5th. The companies will feature styles ranging from contemporary to antique in 9, 14, and 18 K gold as well as silver. Many designs have sculptural effects and by using the electroforming process or lightweight gold give the impression of mass without cost or weight.

Further information on the jewelry industry can be obtained from Serena Toubin, Government of Israel Trade Center, 350 Fifth Avenue, New York, N.Y. 10118 (212) 560-0664.

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DEPARTMENT OF COMMERCE

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 FM AMEMBASSY TEL AVIV
 TO RUEHDC,USDOC WASHDC
 INFO RUEHC,SECSTATE WASHDC 6298
 BT
 UNCLAS TEL AVIV 01906

E. O. 12066: N/A
 TAGS: BEXP, IS
 SUBJECT: LICENSING OF JEWELRY

REF: USDOC 01103

1. MINISTRY OF INDUSTRY, TRADE AND TOURISM (I. T. T.)
 INFORMS EMBASSY THAT IMPORT LICENSES FOR GOLD AND SILVER
 JEWELRY HAVE NOT BEEN DISCONTINUED. HOWEVER, ISSUANCE OF
 LICENSES HAS BEEN CURTAILED DUE TO CURRENT UNPROFITABILITY
 OF IMPORTS. LICENSES ARE ISSUED ON MERITS, ON CASE BY CASE
 BASIS.

2. EMBASSY QUERIED AZRIELART AND COMPANY ON SITUATION.
 ACCORDING TO AZRIELART, IT IS NOW ALMOST IMPOSSIBLE TO
 OBTAIN IMPORT LICENSE FOR JEWELRY REGARDLESS OF SOURCE.
 AZRIELART STATES THAT IT IS GOI'S POLICY TO PROTECT LOCAL
 INFANT INDUSTRIES WHICH ARE CURRENTLY UNDERGOING GREAT
 DIFFICULTIES. HE ASCRIBES THESE DIFFICULTIES TO HIGH
 PRICE OF GOLD AND CREDIT RESTRICTIONS IMPOSED BY GOI.
 LEWIS
 BT
 #1906

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STATEMENT OF GEORGE R. FRANKOVICH, VICE PRESIDENT AND EXECUTIVE DIRECTOR, MANUFACTURING JEWELERS & SILVERSMITHS OF AMERICA

Mr. FRANKOVICH. Thank you, Mr. Chairman. My name is George R. Frankovich. I'm the vice president and executive director of the Manufacturing Jewelers & Silversmiths of America. My complete statement has been submitted to the committee, Mr. Chairman. I will summarize my summary, if I may.

Senator CHAFEE. Fine.

Mr. FRANKOVICH. The American jewelry industry consists of about 4,000 firms. They employ about 77,000 workers. They ship some \$4 billion in product.

With the makeup of this committee as it is, I cannot pass up mentioning, however, that Rhode Island has some 800 jewelry firms. They employed, past tense, about 35,000 people, or about 45 percent of the total industry. Again, because of the makeup of the committee, it pleases me to mention that New York and New Jersey have about 1,300 firms, and they employed about 24,000 people, about 31 percent of the total. Altogether, these two areas comprise about 75 percent of all jewelry manufacturing in this country.

Perhaps I can assist ITC in the study they are about to make. Suffice it to say that employment in the industry is off about 25 percent. Bankruptcies in the first 9 months of this year compared with last year jumped from \$3.2 million in 1979 to \$65.8 million. There are about 8,000 Rhode Islanders out of work due to the jewelry situation and about 6,000 New York-New Jersey people.

Now, the reasons for the picture, of course, are severalfold. The general economy is one, including the effect of inflation on sales of nonessentials, skyrocketing metal prices, and a substantial and growing jewelry foreign trade deficit.

The jewelry industry has an unfavorable trade balance of about \$854 million, the equivalent of some 19,500 jobs, 10,000 of which were lost between 1977 and 1979.

The two GSP-eligible countries we fear the most are Hong Kong and Israel, two of the most developed of the developing nations. We agree with the members present that some stricter criteria should be instituted as to when a complete country itself graduates to an equal competitive status with the rest of the world.

Hong Kong penetrated the competitive need ceiling for precious jewelry the first year duty-free treatment was accorded, and so tariffs went back on. However, even with the tariffs on, Hong Kong imports are increasing more than our domestic production.

Israel has become the principal supplier of one important jewelry item in 1980, and presumably tariffs will go back on. But it also seemed to exceed the \$41.9 million competitive ceiling for our largest jewelry category, 740.10 last year. Two incredible events occurred. U.S. Customs found a \$1 million error in the figures that they had already published. That just happened to bring Israel's imports below the competitive-need ceiling and therefore prevented a resumption of tariffs. The second incredible event has been discussed previously, the division of that same category into five.

I won't belabor this point except to bring out several factors that were not mentioned.

First of all USTR gave two reasons why that division was made: One, an increase in the price of gold; and two, the fact that GSP duty-free imports of this product were only 10 percent and were dropping slightly as a percentage of all imports.

Now, actually they were increasing, but not quite as fast as non-GSP imports. Now, USTR arithmetic in dividing this category into six because of the increase in gold price is pretty tricky arithmetic. What was their base year? If it was 1977 to 1978 or 1977 to 1979, perhaps a division or two might prove out. Remember, too, however, the competitive-needs ceiling was increasing during that period, which would tend to nullify this proliferation of divisions that they pulled on us.

It sets a very difficult precedent, too. The price of gold and the price of oil have increased in tandem, percentagewise. Does USTR now feel that it can divide all tariff categories of thousands of products that are petroleum based to double or quadruple their tariff-free status? How about an aberration of price that might be due to weather, a shortage of leather due to a drought in Argentina?

In 1974, Members of Congress were told that the competitive needs ceiling provided country by country, product by product, a graduation procedure and therefore protection for domestic industry from any large influx of duty-free goods from low labor cost countries. This division of precious jewelry category pointed up other deficiencies of GSP and/or USTR. At no time prior to the Executive order did the domestic industry have a chance to formally comment on the nomenclature of the five newly created catego-

ries. Actually they make no sense from a statistical point of view, nor from the point of view of trying to achieve one of Israel's purposes, that is, separating handmade products from nonhandmade. The decision was totally unjustified by the reasons given. It was made without adequate study as to domestic impact. It sets dangerous precedents, and it flouts the well-documented will of the Congress, and is probably illegal.

Senator CHAFEE. Now, Mr. Frankovich, it is my understanding that the industry, from my understanding from the USTR people, that the industry is going to have an opportunity to—that there is a delay period here until March 1981, and thus the industry will have an opportunity to present its views further.

Is that any consolation?

Mr. FRANKOVICH. Not really. I don't think the waiting period is enough, Senator. I am pleased with the bill that you have introduced that will extend that waiting period and study period.

Senator CHAFEE. All right. Won't you continue?

Mr. FRANKOVICH. Now, we believe that the decision to do this favor for Israel, for the Israeli jewelry industry, was made at high Government levels, and that the hearings and the tortuous attempts of the USTR to justify the decision are but a facade. We have strong evidence that the decision was politically inspired. And we take no position on any U.S. policy aimed to assist or punish any foreign country for diplomatic, military, or political reasons. We do object to the burden of such a decision being placed on the small and currently very weak shoulders of the domestic jewelry industry. It should be shared by the economy in general.

These are some specific observations on GSP from the narrow point of view of jewelry manufacturing. We are delighted that the Senate has availed itself of the opportunity to study this and hopefully restudy it next year. And we do hope that the bills that have been offered that offer other possibilities of graduation do indeed pass, the one sponsored by you to correct some of the basic flaws, S. 8165, and S. 8166 which addresses itself to this division of the jewelry category. We of course support these bills and will urge their passage.

We also had a brief opportunity to look over S. 8201, sponsored by Senators Heinz and Moynihan, that came to our attention a few days ago. We haven't had a chance to study the full impact of this bill, but generally we applaud its thrust to create another graduation possibility and another safeguard for some broad segments of American industry.

The one problem we see perhaps is this: This would set a \$100 million limitation on two-digit SIC codes. What is to prevent the administration from adding more two-digit SIC codes and split the ones that are now in force?

That's all I have.

Senator CHAFEE. Thank you.

Well, I share your concern over this division business, Mr. Frankovich, and of course I share your concern over the job loss that has occurred in the State of Rhode Island where it has been most graphic, and of course also in the States of New York and New Jersey, as you point out.

One of the things that intrigued me was that after considerable effort, we were able to obtain an EDA grant of \$100,000 to study the problems of the jewelry industry, what we can do to increase production and sales, and yet while that is going on in one hand of the Government, \$100,000 being given out, this division takes place from the separate hand of the Government, which strikes me as a rather ironic way to proceed.

Mr. Fleishman?

[The prepared statement of Richard G. Woolworth, presented by Mr. Charles D. Fleishman, follows:]

Fleishman & Tennyson
COMMUNICATIONS INC.

TESTIMONY

before the

SENATE FINANCE COMMITTEE

Subcommittee on International Trade

RE: Generalized System of Preferences
and S. 3165 - S. 3166

Statement of

Richard G. Woolworth
Chairman and President
Woodstream Corporation
Lititz, Pennsylvania

Presented by

Charles D. Fleishman

November 25, 1980

M. Chairman and Members of the Subcommittee:

My name is Charles Fleishman. This statement is presented for the record on behalf of Richard G. Woolworth, Chairman and President of the Woodstream Corporation which is headquartered in Lititz, Pennsylvania.

The Woodstream Corporation is a major manufacturer of outdoor recreation products such as fishing rods, tackle boxes and bait buckets, wildlife traps, rodent and pest control traps, decoys, snowshoes and fiberglass and aluminum boats and canoes that are distributed and sold worldwide. The company has facilities located in California, Louisiana, Washington, Ontario and Pennsylvania with more than 1,200 employees.

As a long standing member of the fishing tackle industry, Woodstream has directly witnessed and experienced the negative impact of the Generalized System of Preferences (GSP) since its inauguration in early 1976 when a number of fishing equipment TSUS categories were made eligible for duty-free treatment. Even prior to that time, the domestic industry was increasingly being subjected to an influx of competitive outdoor recreation products from foreign producers. The import trend accelerated tremendously once GSP took effect, especially since the U.S. is the major marketplace in the world for fishing tackle and related products.

The Woodstream Corporation has faced stiff competition both here and abroad for years. While we do not fear fair competition, we do have concerns regarding current and future actions that could be taken by our government. In both the Kennedy and Tokyo Rounds of the Multilateral Trade Negotiations, domestic producers saw tariffs on similar foreign products reduced substantially, sometimes by as much as 60 percent. Worse yet, the problems of decreasing tariffs, rapidly increasing imports and rising U.S. inflation and costs were fully compounded when duty-free status to many fishing tackle items gave foreign competition as much as a 23 percent advantage immediately. Although we constantly attempt to control our costs while improving production and marketing efforts, the external market forces of tariff reductions and increasing non-tariff competitive advantages for foreign producers make fair competition difficult.

This is not the first time that I (Richard Woolworth) have addressed the serious threat of imports caused partially by lower or eliminated tariff schedules. Just recently, I (Richard Woolworth) spoke to members of the International Trade Commission, urging that lower tariffs not be allowed and that GSP status not be given to fishing rods. In that proceeding there was not a single importer. This is not surprising in light of a recent statement by a major West Coast fishing tackle importer who said in a letter to members of the industry, "We recommend against any further reduction of tariffs or reclassification of rods and parts under GSP. Rather, we would ask the ITC and USTR to reexamine and restructure staged reductions in tariffs already planned." In my opinion, it is essential that our government monitor and react quickly to assist American industry particularly when importers themselves indicated that more tariff concessions are not warranted.

continued.....

Richard Woolworth Statement
Page 2

Gentlemen, a once strong and proud domestic fishing tackle industry with more than 80 percent of the consumer market before 1976 has been greatly injured by GSP in just four years to a point where U.S. producers have barely more than 40 percent of the American market. In fact, there are not many of us left to testify. Without a doubt, rising non-GSP and GSP imports under the administration of this program have caused serious, perhaps irreparable, injury to employment, sales, production, profits and growth of many U.S. fishing tackle manufacturers. Allow me to give some examples of what GSP and its unrealistic controls have caused:

Snelled Hook Industry - no longer exists in the U.S. and is strictly imports.

Artificial Baits & Flies - domestic producers have been forced to buy heavy commitments from overseas to stay in business. In 1979 this category was declared import sensitive and removed from GSP eligibility. Unfortunately, distributor profits fell by 58.9 percent while imports increased 84.1 percent over a period of several years before relief was granted.

U.S. Reel Industry - profits dropped 45.2 percent while shipments declined by 11.2 percent. Imports rose 15.4 percent. During the same period, the market only grew by .9 percent. There used to be eight major U.S. reel producers. Now there are only three. In April of this year, reels valued between \$2.70 and \$8.45 in value were removed from GSP eligibility. Unfortunately, the category of reels valued over \$8.45 is also experiencing strong import penetration with more than a 1,400 percent increase since 1976.

Rod Components - historically the major manufacturer, Allan Manufacturing Company closed down operations in 1978 laying off about 150 employees. Even in light of this development, as well as the deteriorating situation of rod manufacturer's, recent hearings were held to consider whether or not rods and rod parts should be accorded GSP status.

U.S. Rod Industry - this portion of the industry is experiencing even greater problems:

Bankruptcies or Chapter XI

Garcia Corporation, Teaneck, New Jersey (Conolon Rod) -
American Stock Exchange - \$100,000,000 Sporting Goods Company.

Gladding Corporation, Boston, Massachusetts (Horrocks-
Ibbotson, Southbend Tackle Co., Harnell and U.S. Fiber
Glass Divisions) - American Stock Exchange - \$70,000,000
conglomerate.

continued.....

Richard Woolworth Statement
Page 3

Angler Rod Company, Detroit, Michigan

Great Lakes Sporting Goods Co., Michigan

Longfellow Rod Co., Michigan

Closed Plants

True Temper, division of Allegheny Ludlum - about
440 employees - New York Stock Exchange.

Major Rod Company, Tupper Lake, New York - about
150 employees.

Graftex, division of Exxon Corporation, Coca, Florida -
Approximately 30 employees - New York Stock Exchange.

Brogdon Rod Company, South Carolina

Allan Manufacturing Company, Long Island, New York
(rod components) - about 150 employees.

Sold Out or Merged Due to Financial Losses Incurred

Fenwick Corporation (employees reduced by 130 to date)

St. Croix Corp., formerly owned by Bethlehem Steel

Phillipson Rod Company

Algonquin Rod Company

Heddon Tackle Company

Moved Rod Plant Overseas

Berkley & Company, Inc. (Taiwan)

The foregoing information is presented to illustrate that substantial injury to the domestic industry has taken place and actions to stop serious economic consequences must occur quickly before it is too late. It is my belief that the relief mechanisms such as annual reviews, petitions and hearing proceedings are much too lengthy, time consuming and expensive to possibly provide assistance at a time when it will have a maximum positive effect for American manufacturers.

continued.....

Richard Woolworth Statement
Page 4

While we do not specifically quarrel with the congressional intent of GSP, we fail to understand the rationale and lack of action relative to "third world" producers such as South Korea and Taiwan who have been allowed to continue under the GSP while domestic industries suffer heavily. Every GSP eligible product as well as countries afforded GSP status should be individually monitored continually and action to correct negative domestic trends must be accomplished within weeks, not months or years.

The limitations originally set forth to prevent the very situations that I have been discussing simply do not work, in my opinion, especially for smaller industries. Trade surpluses, individual and collective foreign market shares in the U.S., the lack of reciprocal reductions of tariff and non-tariff barriers, critical economic characteristics of the affected industries have not been adequately weighted and addressed. Our government must study and include in their trade policy the realities of foreign manufacturing methods and procedures, price penetration techniques, inter-Asian manufacturing mobility as well as foreign subsidy and assistance provided to manufacturers in making decisions that effect the future of entire industries and thousands of workers.

We applaud the effort and attempt by some members of the Senate to begin investigating the GSP program, its management and associated problems. But, corrective steps must be taken soon if the Congress is to provide meaningful remedies. S. 3165 and S. 3166, which we support in concept, are a start but still are not adequate to bring back into balance the GSP as it was originally intended. Limitations must be as varied and flexible as the industries they apply to if GSP is to work fairly for underdeveloped as well as U.S. producers.

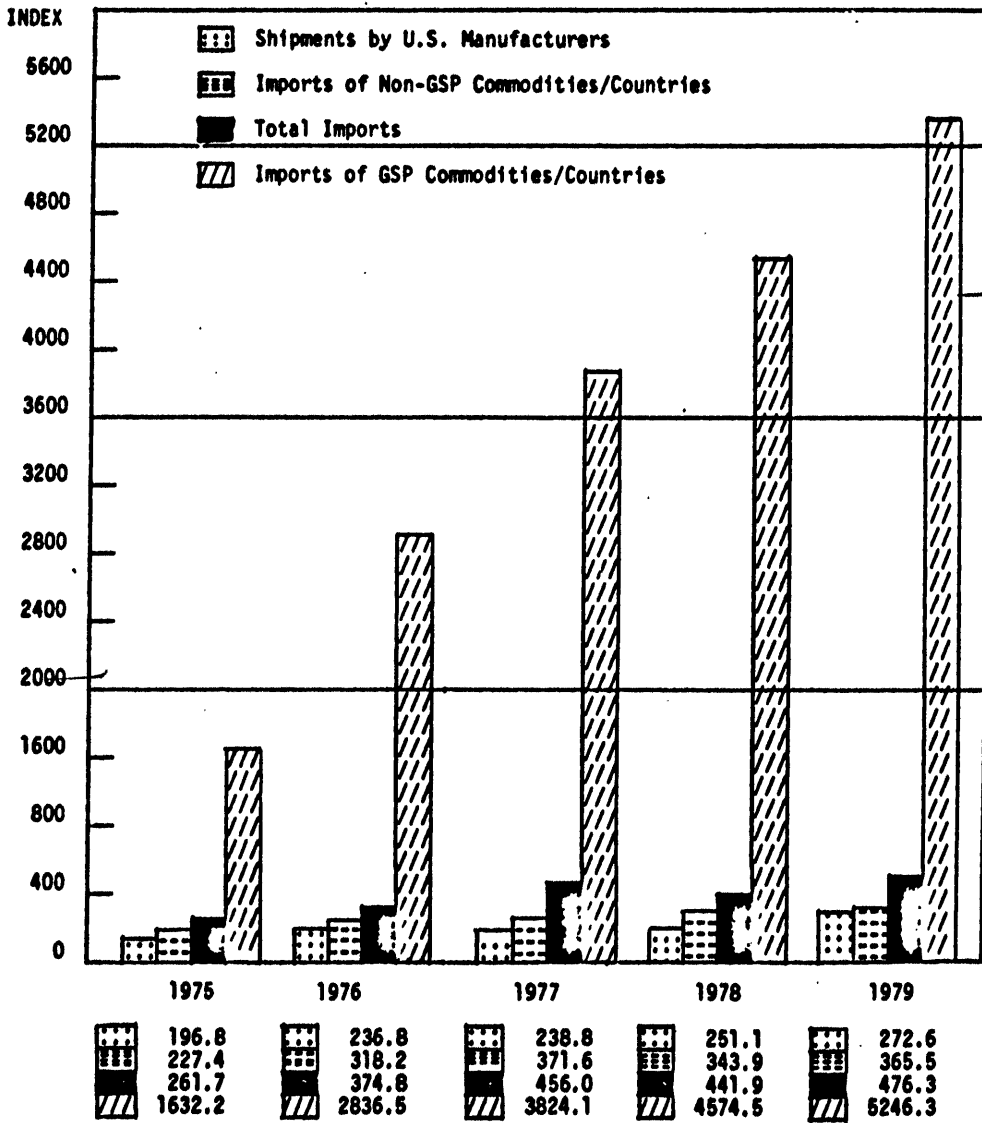
As far as the fishing tackle industry, it is fast becoming a very well-documented disaster as we participate in one fact-finding exercise after another. We can only hope that Senators, such as yourself, will continue to take the leadership necessary to mandate that the GSP program be carefully analyzed and changed in support of American industry. Certainly, the fishing tackle industry as well as probably many other industries cannot endure another four years of GSP.

Thank you for allowing me to present my views. I will be happy to answer any questions that the Committee members may have.

Respectfully submitted,

Richard G. Woolworth
Chairman and President
Woodstream Corporation

INDEX OF FISHING TACKLE SHIPMENTS AND IMPORTS
1975 - 1979
(1967 = 100.0)

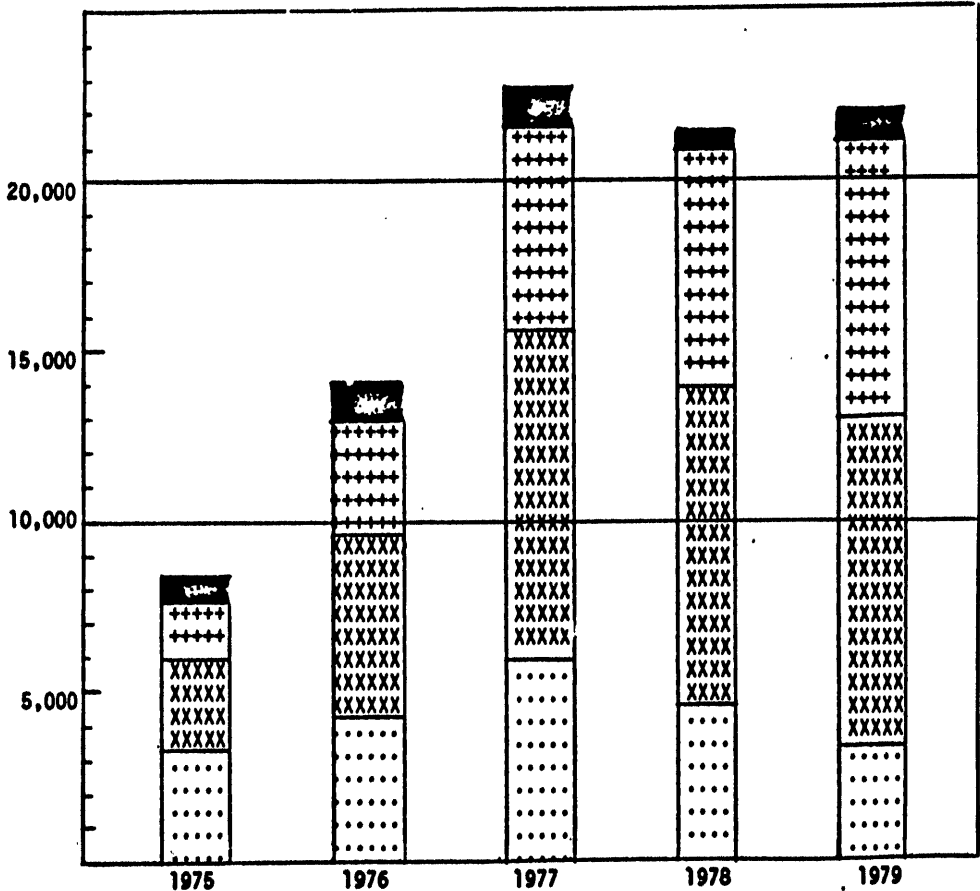


Sources: *IM - 146, Department of Commerce
Fishing Tackle Industry Statistics

IMPORTS OF FISHING RODS (TSUS 7311520)

1975 - 1979

In Thousands of Dollars



Japan	3908	4541	6016	5119	3663
Taiwan	2403	5374	9761	9535	10053
Korea	1702	3231	5852	6590	7826
Other	981	1274	1418	756	1321
Total	8994	14420	23047	22000	22863

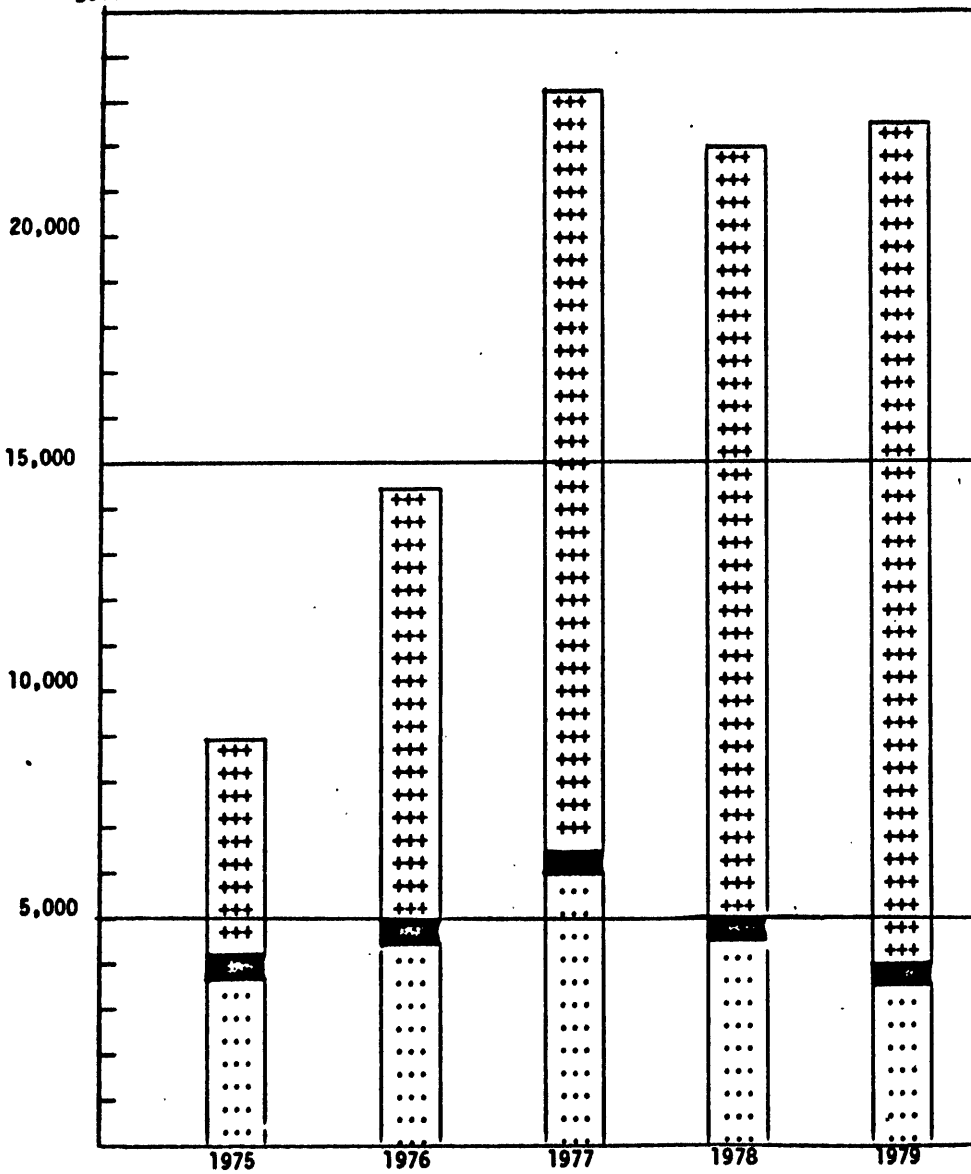
Source: IM-146, Department of Commerce

IMPORTS OF FISHING RODS IF ELIGIBLE FOR
GENERALIZED SYSTEM OF PREFERENCES

EXHIBIT III

In Thousands of
Dollars

1975 - 1979



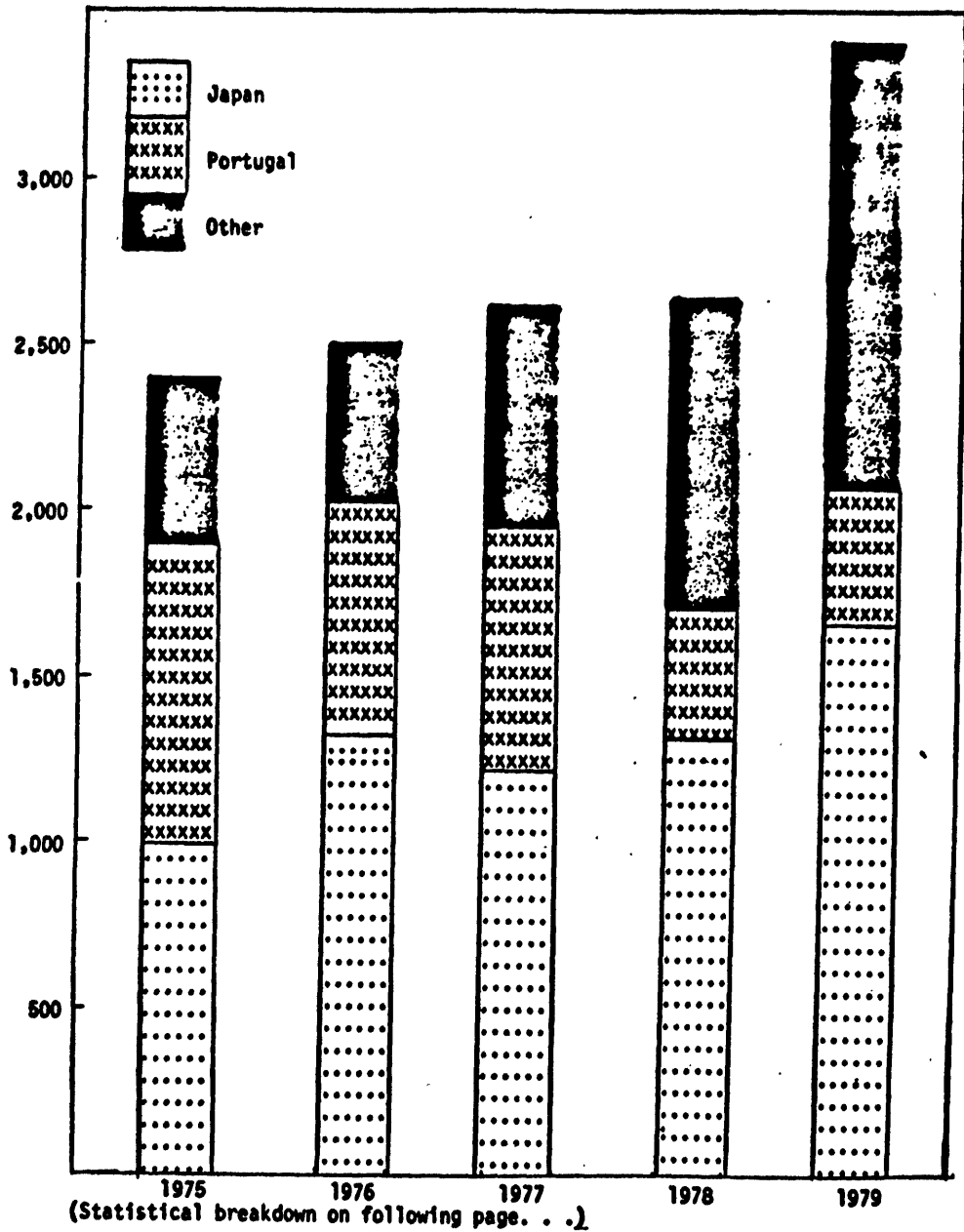
	1975	1976	1977	1978	1979
GSP	4927	9534	16579	16817	19088
Other	159	345	272	64	112
Japan	3908	4541	6016	5119	3663
Total	8994	14420	23047	22000	22863

Source: IM-146, Department of Commerce


IMPORTS OF ROD PARTS (TSUSA 7311540)

EXHIBIT IV

1975 - 1979



Statistics for Exhibit

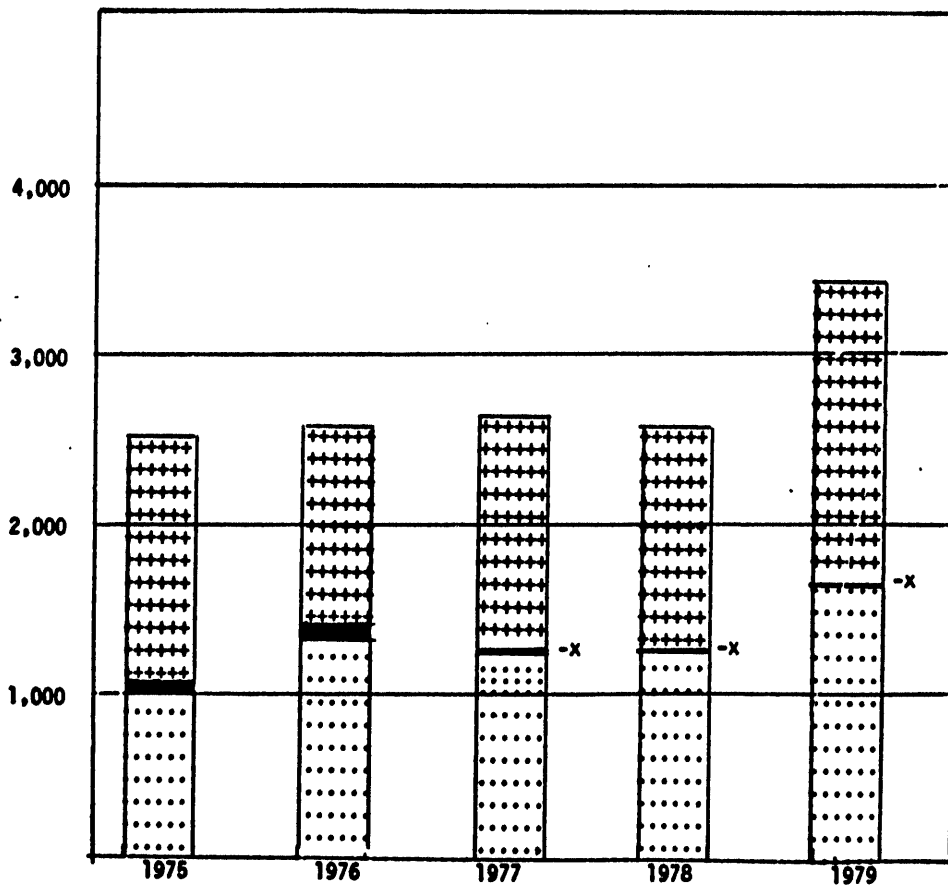
	1006	1351	1260	1331	1714
	947	667	718	432	426
	421	498	701	894	1334
TOTAL	2401	2516	2679	2657	2447

Source: TM-146, Department of Commerce

PROJECTED IMPORTS OF ROD PARTS IF
ELIGIBLE UNDER GENERAL SYSTEM OF PREFERENCE

1975 - 1979

In Thousands
of Dollars

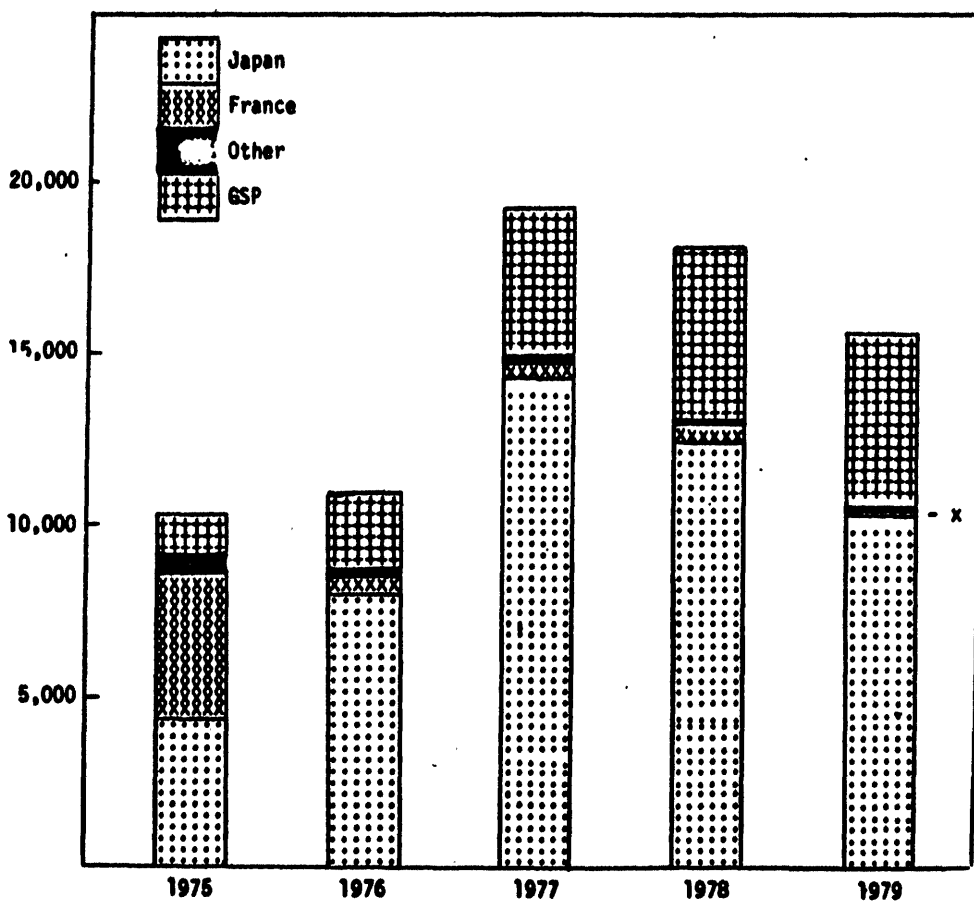






	1975	1976	1977	1978	1979
Japan	1006	1351	1260	1331	1714
Other	75	129	57	48	46
GSP	1302	1036	1362	1278	1714
TOTAL	2401	2516	2679	2657	3474

IMPORTS OF REELS VALUED AT OVER \$2.70 BUT NOT OVER \$4.45 EACH (TSUSA 7312200)

1975 - 1979

In Thousands of Dollars



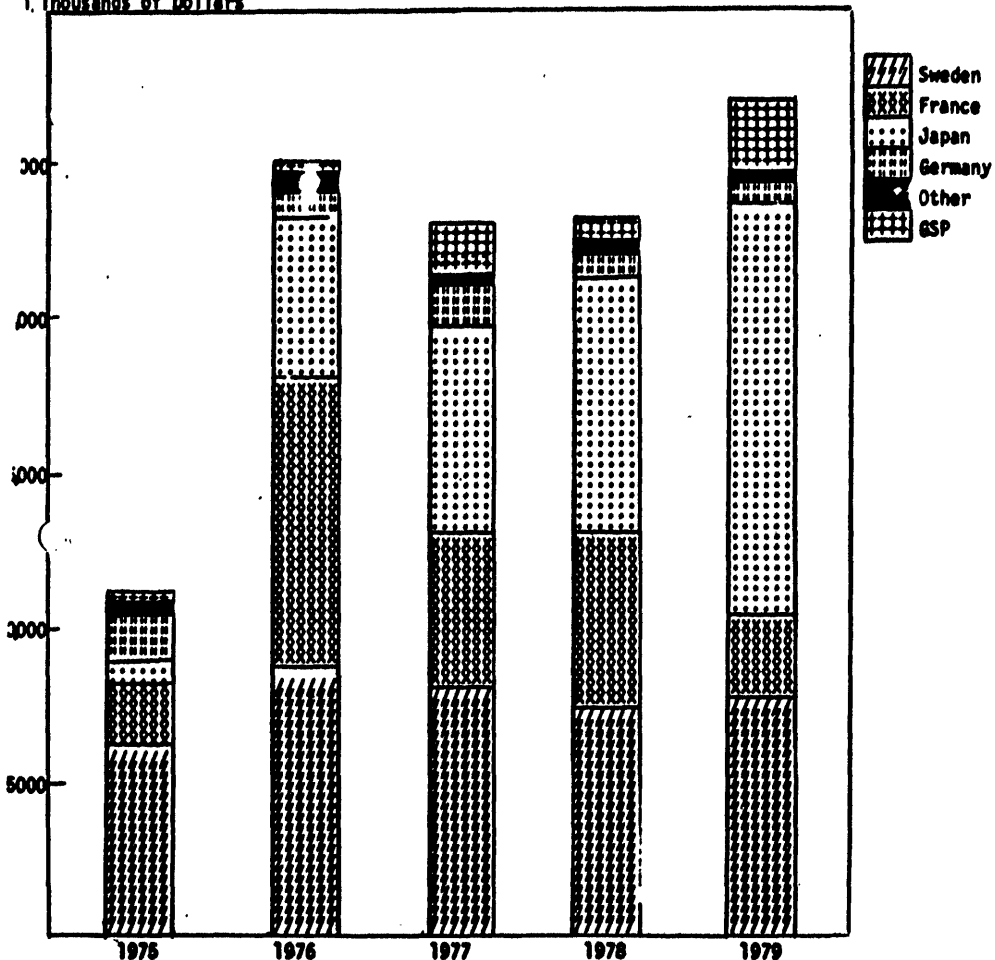
	4686	8128	14,486	12,586	10,418
	4943	529	610	549	103
	386	144	163	94	86
	509	2491	4,641	4,777	5,670
TOTAL	10,524	11,292	19,990	18,006	15,277

Source: IM-146, Department of Commerce

IMPORTS OF REELS OVER \$8.45
(TSUSA 73124)
1975 - 1979

EXHIBIT VII

Thousands of Dollars



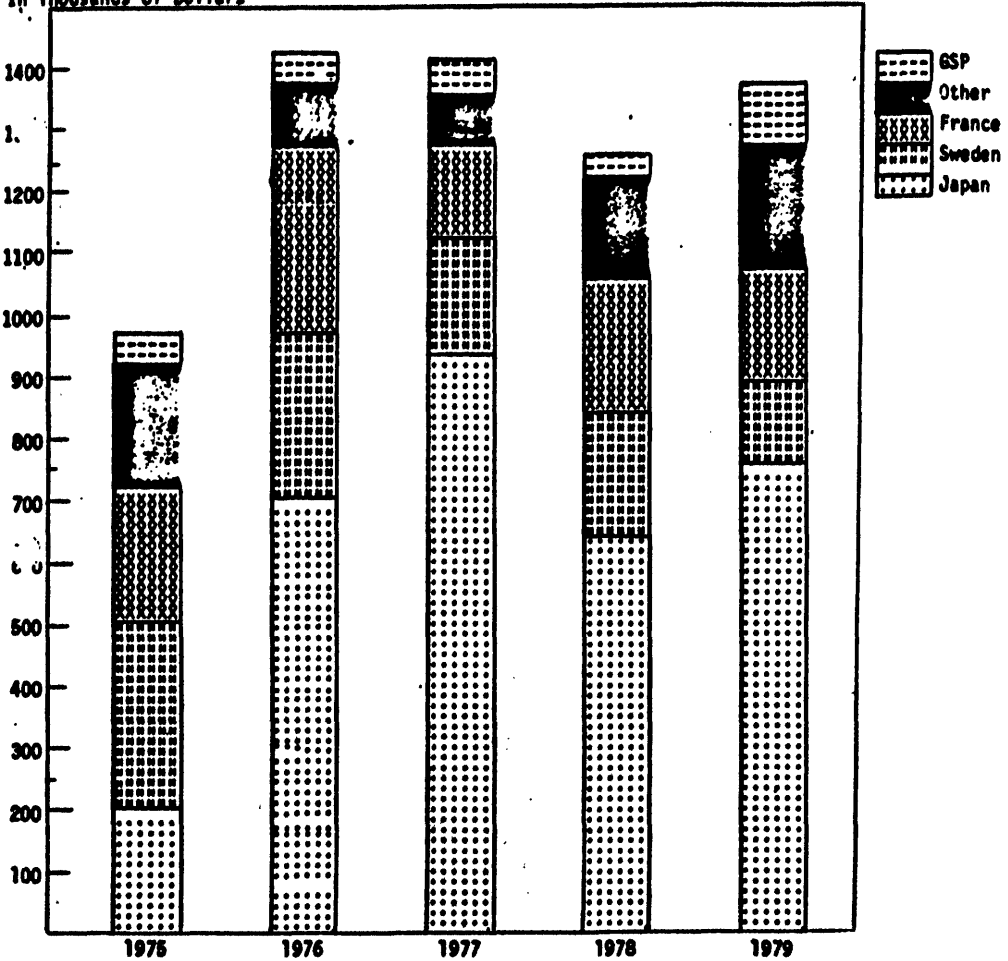
	1975	1976	1977	1978	1979
Sweden	6257	8907	8178	7214	7604
France	2699	9730	5282	5840	2901
Japan	1468	5478	6734	6624	13,238
Germany	1312	865	1414	563	756
Other	295	356	357	407	542
GSP	3	145	1649	577	2107
TOTAL	11,944	25,481	23,541	23,225	27,148

Source: IM-146, Department of Commerce

IMPORTS OF REEL PARTS (TSUSA 73126)
1975 - 1979

EXHIBIT VIII

In Thousands of Dollars



	1975	1976	1977	1978	1979
Japan	211	734	942	649	768
Sweden	326	238	180	232	137
France	260	314	157	205	188
Other	167	137	113	132	171
GSP	13	45	60	65	111
TOTAL	980	1468	1452	1283	1375

Source: IH-146, Department of Commerce

STATEMENT OF RICHARD G. WOOLWORTH, CHAIRMAN OF THE BOARD AND PRESIDENT, WOODSTREAM CORP., AND CHARLES D. FLEISHMAN, ESQ., ON BEHALF OF WOODSTREAM CORP.

Mr. FLEISHMAN. Good afternoon, Mr. Chairman.

It was originally scheduled that I would present the views of the Woodstream Corp., and I am happy to announce that Mr. Richard Woolworth, chairman and president of the Woodstream Corp., has been able to travel from Lititz, Pa., to be with us this afternoon.

I will make a few opening comments very quickly and briefly. Then Mr. Woolworth will take it over from there.

Senator CHAFEE. I must say, I don't know what Woodstream Corp. is. Could you explain it to me?

Mr. FLEISHMAN. It is in Lititz, Pa., and probably Mr. Woolworth can give in detail the directions there should you ever want to know more about it.

Senator CHAFEE. Oh, yes, here it is in his statement, outdoor recreation products, fishing rods, tackle boxes, baits, aluminum boats, decoys. Quite a business.

All right, Mr. Woolworth, do you want to proceed?

Mr. WOOLWORTH. Thank you, Senator Chafee.

I am delighted to be here on behalf of the Woodstream Corp., but hopefully in behalf of the fishing tackle industry. It may give the Senator some insight on the problems within a particular segment of this GSP.

We probably view ourselves a little bit as an endangered species. The industry has been declining in size as far as the American sector is concerned to a point where there has been a number of bankruptcies, which you will see in my report. It is very difficult for me to appear here today because we are in Lancaster, Pa., Lititz, Pa., we are in the Pennsylvania Dutch country, and as you know, the Mennonites and the Amish and the heritage that is within that area generally feel that they should take care of themselves and work it out as best they can.

But in this particular situation we have an area whereby before GSP the fishing rod industry had 80 percent manufactory in the United States and 20 percent import. Since GSP has come into effect, the percentages have changed to 40 percent manufactory in the United States and 60 percent import.

In addition, I have—

Senator CHAFEE. Do you attribute that solely to GSP?

Mr. WOOLWORTH. Yes, sir. What happened was in the process, the Japanese industry started with low-priced goods, about 8 to 10 years ago, and as they became less competitive, they had upward mobility sufficiently to move to South Korea and Taiwan. And in that process of movement, you will probably notice that the growth is practically zero in the American industry, and that would be in exhibit 1, where the growth in imports has been almost astronomical.

Also in my report—

Senator CHAFEE. I have a Garcia reel, and I notice they have gone bankrupt.

Mr. WOOLWORTH. I have the bankruptcies, sir, in my statement, whereby we all remember the Ambassador reel. It was imported by

the Garcia Corp. The Garcia Corp. had a Conlan rod division. They were on the American Exchange. They were doing \$100 million and they went bankrupt about 2½ years ago. They took chapter 11.

I am not saying that the rod was the thing that dragged them underground, but I am just saying that it certainly contributed to it.

No. 2, the Gladding Corp. We all remember the Horrocks-Ibbotson, the Harnell rods, if you are a fisherman yourself. They took chapter 11, and they were on the American Exchange at \$70 million.

The bad news is that I am on the American Exchange also, sir, and I went on a year and a half ago and I am really beginning to worry. Maybe that is an anticipation

The Angler Rod Co. went bankrupt. The Great Lakes Sporting Goods, Longfellow Rod, these are names that are known in the industry. This just isn't a helter-skelter.

Beyond that, I would like to comment about some closed plants. The True Temper Corp., which is a division of Allegheny-Ludlum, if there is any company that would have financial resources sufficient to support possibly a growing industry in competition, it would be Allegheny-Ludlum. They closed down 440 employees, and that was the end of it. They didn't even sell the plant.

A company by the name of Exxon Corp. formed the Graftex Corp., and it was a division of Exxon, and they closed up.

Senator CHAFEE. They ought to have substantial financial resources.

Mr. WOOLWORTH. Yes, sir.

Senator CHAFEE. I seek the list here. We are a little short—

Mr. WOOLWORTH. It is a bit of a litany, and I would only like to make one other comment, sir. I did have a fishing lure company in Providence, R.I. It was the Atlantic Lure business, and we bought the business to supply Sears, Roebuck & Co., and other major chains, lures for a complete line. But by the time this whole thing broke loose, we were forced not only to close it, but we couldn't find a buyer for it.

And I am not here with anything other than to try and give you the complexities of the situation, and if I could have 1 or 2 more minutes, because if we would maybe get into the ethics of the situation, if you talk about a fishing rod that is made in Taiwan or in South Korea that has "Made in Taiwan" on it, and then is brought in and put an American handle or components over it so it is no longer made in Taiwan, and what is happening here is the average American consumer has no idea that he is buying foreign imported goods.

No. 2, we have a bill in Congress in effect by the Dingell-Johnson Act. The Dingell-Johnson Act in effect takes 10 percent of all sales of the first sale that goes to, in fishing tackle, that goes to the fisheries and wildlife.

Senator CHAFEE. I am very familiar with that.

Mr. WOOLWORTH. Now, if you were a manufacturer in Taiwan and we were in partnership, sir, you could sell me at your cost, at \$2.50 or \$3, and as the Dingell-Johnson Act is stated, it is the first sale, so that would be 30 cents, and then the profit could be taken out in the corporation in the United States between the second sale and

the final sale. The offset, sir, is when the Fenwick Corp., which I bought in 1978, when we make our first sale, our first sale is to the distribution system, and therefore 10 percent on a \$20 rod is \$2, and our competition is paying 30 cents, which causes our differential even worse.

And we are in a state, sir, that there is a plant right now in Taiwan being set up. Their labor rate is 70 cents, and you know and I know with added value that there are no fringes, and we have our blank plant in Bainbridge, Wash. It is an island off of Seattle, and I would like to have the ATR go up and talk to the people on the floor, if you want to talk about off-island GSP, and help those people because we have got a situation which is abominable and there is no sign of this thing changing if we don't stop it immediately.

And I appeal to you and the Senator from New York and the Senator from Pennsylvania, from where we are, Senator Heinz, Senator Moynihan, that you look at this situation because it is complex and it involves really a survival of an industry, because if \$6 billion is probably not important maybe to this country, in the total complex, but if you unload \$6 billion on any one industry, it gets decimated without any relief.

Thank you.

Senator CHAFEE. Well, thank you very much, Mr. Woolworth. That was very telling testimony and I appreciate you coming here.

Mr. WOOLWORTH. Thank you.

Senator CHAFEE. We will take Mr. Vanderslice and Mr. Rowland together, if we could, please.

Gentlemen, do you want to identify yourselves and proceed?

Mr. VANDERSLICE. Yes. My name is Lane Vanderslice. I am an issue analyst for Bread for the World.

Mr. ROWLAND. I am Ted Rowland. I am a staff economist for the American Importers Association.

Senator CHAFEE. All right. Why don't you proceed, Mr. Vanderslice.

[The prepared statement of Mr. Lane Vanderslice follows:]

Statement on
the Generalized System of Preferences

My name is Lane Vanderslice. I am an Issue Analyst for Bread for the World. Bread for the World is a Christian citizens' organization with 35,000 members. We seek public policies that will reduce the vast amount of hunger in the world. We are part of a very large number of U.S. citizens concerned about the problem of world hunger. Most major church denominations have many people concerned with and active in hunger activities. Other groups, such as World Hunger Year and the Food Policy Center, share these concerns and activities.

I would like to thank you, Mr. Chairman, for the opportunity to appear before this committee. The only sure, sustainable way to avoid hunger for the people of the world is to have them employed in productive activities. We all know the problems that the United States has in keeping its citizens productively employed. The problems are much more severe for developing countries. These countries are unable to produce many goods which they need, especially capital goods, and thus must produce export goods to a greater degree than the United States. They must also set up their industries with capital equipment that is designed for conditions that prevail in the developed countries. The equipment is designed to save more labor than is desirable for developing countries, and to produce greater quantities and different goods than ideally would be called for. The developing countries are faced with severe energy problems, and partly as a consequence, severe balance of payments problems.

These problems and others hinder their industrialization. The Generalized System of Preferences (GSP) was set up by the U.S. and other developed countries by eliminating tariffs on selected goods in the hope that this would stimulate developing countries' exports and help in the diversification of their economies. The President's report on the first five years of the GSP was released in April of this year, and has provided the opportunity to evaluate the operation of the GSP to date.

We would like to make five observations.

1. GSP imports are rather small both in comparison to the size of the U.S. economy and in comparison to total U.S. imports. In 1978, for example, the U.S. GNP was over two trillion dollars, total U.S. imports were about 17.3 billion and GSP duty free imports were about \$5 billion. This means that GSP imports were one fourth of one percent of GNP, and three percent of total U.S. imports. The program is a small one, especially in light of the needs of people in less developed countries. We support the continuation of the program at its present level and would certainly oppose any substantial contraction.

2. Action should be taken to insure that the benefits of the GSP are more widely distributed. Developing countries are not all the same, and their ability to obtain benefits from the current GSP varies widely. In 1978, for example, U.S. imports from the mid-level developing countries were only 9.3% of total GSP imports, while imports from the less developed developing countries were only 3.3%. The advanced developin

countries obtained 87.4% with imports from five countries, Taiwan, Hong Kong, Korea, Brazil and Mexico, accounting for 68%. (President's Report, p. 42.) There are a number of actions which could be taken to reduce this unequal dispersion. Countries could be permanently 'graduated' from the GSP for a certain product after they show that they are internationally competitive for this product. This will permit other countries to obtain GSP benefits while reducing the total impact on U.S. industry.

The most important policy change we propose is the establishment of a 'two-tier' system in the GSP. Products should be added to the GSP list that are within the export capabilities of the less competitive developing countries. These products should be added only for these less competitive developing countries. This new second 'tier' would serve to minimize the impact of the GSP on U.S. industry. Finally, it might be possible to make exporters in these countries more aware of the GSP.

3. The purpose of the GSP is to help developing countries assist their people. This aid can be easily nullified in a particular case by a government not acting to advance the basic human needs of its people. When such is the case, as determined by the President of the United States, we would support suspension of GSP privileges, in whole or in part, for the country in question.

4. Our next comment refers to S. 3165, a bill to amend the GSP. This bill would end the GSP designation for a given good if GSP

imports are over 50% of total imports. We believe that protection can be given to U.S. industry in a way that will not have an adverse effect on the interests of developing countries. As it stands now, many of the goods that can be exported by the developing countries are excluded from the GSP. Excluding even more of them would seriously weaken the program. Graduation of major importers is a less drastic, but entirely adequate remedy.

5. The GSP is a part of the NIEO--the new international economic order--that has been proposed by the developing countries. It is not to be expected that even part of a new economic order is to be brought about without difficulties and without costs. We recognize that there have been real costs incurred in adjusting to the GSP and we are grateful to those that have borne them. We think that we have seen the major problems of adjustment in the first five years and feel that the safeguards are adequate to prevent serious difficulties for U.S. industry in the future.

STATEMENT OF LANE VANDERSLICE, ISSUE ANALYST, BREAD FOR THE WORLD

Mr. VANDERSLICE. Yes. Bread for the World is a Christian citizens organization with 35,000 members. We, along with many others, seek public policies which will reduce the vast amount of hunger in the world.

Senator CHAFEE. Now, you will have to summarize this, Mr. Vanderslice, because of the time.

Mr. VANDERSLICE. Sure, yes. I would like to make six points before this committee.

First, the generalized system of preferences has been a valuable program for developing countries. The only sure, sustainable way to avoid hunger for the people of the world is to have them productively employed. The GSP does this.

GSP does benefit certain countries disproportionately more than others, but these are countries which do not benefit from other U.S. programs like foreign aid. This fact should be taken into consideration.

Second, GSP imports can fairly be described as small, both in comparison to the size of the U.S. economy and in comparison to total U.S. imports. In 1978, GSP imports were only one quarter of one percent of GNP and only 3 percent of total U.S. imports. GSP manufacturing imports are only 5 percent of total manufactured imports. The program is a small one, especially in light of the needs of the people in developing countries, and moreover, it is one which is shared equally among developed countries.

Senator CHAFEE. If you heard the testimony of Mr. Woolworth, it may be small, but in his industry it is big.

Mr. VANDERSLICE. Yes, sir, I do grant that.

We would support the continuation of the program at at least its present level, and would certainly oppose any substantial contraction. Especially do we oppose using graduation as a device for reducing the size of the GSP program.

Third, action should be taken to insure that the benefits of the GSP are more widely distributed. In 1978, for example, U.S. imports from the midlevel developing countries were only 9 percent of total GSP imports, while imports from the less developed developing countries were only 3 percent. The most important policy change we propose is the establishment of a two-tier system in the GSP. Products should be added to the GSP that are within the export capabilities of the less competitive developing countries. These products should be added only for these less competitive developing countries. This new second tier would serve to minimize the impact of the GSP on U.S. industry while benefiting the poorer countries.

Fourth, the purpose of the GSP is to help developing countries assist their people. This aid can be easily nullified in a particular case by a government not acting to advance the basic human needs of its people. If this is so, we would support suspension of GSP privileges in whole or in part for the country in question.

My fifth comment refers to S. 3165, a bill to amend the GSP. We agree that safeguards for U.S. industry should appear in the GSP. However, some of the provisions of this bill definitely seem to go

beyond what is necessary and actually would work against the intent of the GSP.

Sixth, the GSP is a part of the NIEO, the New International Economic Order that has been proposed by the developing countries. It is not to be expected that even part of a new economic order is to be brought about without difficulties and without costs. We recognize that there have been real costs incurred in adjusting to the GSP, and we are grateful to those that have borne them.

We think that we have seen the major problems of adjustment in these first 5 years, and we anticipate that future growth in the program will not be great, nor will future problems.

Thank you, Mr. Chairman. This concludes my testimony.

Senator CHAFEE. Well, I am not sure Mr. Woolworth would agree with you.

All right, Mr. Rowland.

Thank you, Mr. Vanderslice.

Mr. Rowland.

[The prepared statement of Mr. Ted Rowland follows:]

PREPARED STATEMENT OF TED ROWLAND

Mr. Chairman and members of the committee, my name is Ted Rowland. I am Staff Economist of The American Importers Association—AIA—and responsible for our work on GSP.

AIA is a non-profit organization of over 1,300 members formed in 1921 to represent U.S. companies engaged in the import trade. As the only association of national scope representing U.S. firms directly and indirectly involved with the importation and distribution of imported goods, AIA is the recognized spokesman for importers throughout the nation.

We welcome these review and oversight hearings, and the opportunity to present our views regarding operation of the GSP program.

Our Association has taken no formal position regarding GSP. About half of our 1,300 member-companies are using the program. Of the other half, some have no interest and others import GSP-eligible goods from countries not eligible for GSP—competitors, in short, of companies able to take advantage of GSP. AIA's roles, therefore, have been to serve as an information center and to work with the various government agencies concerned with GSP in achieving a smoothly operating, fair and understandable program.

Essentially, we want to make three major points for the Committee's consideration in this five-year review. First, and by far most important, is that the program is working extremely well in its implementation. Second, that under-utilization of the program is, in important part, the result of inadequate information and too little effort to reach traders and domestic industry with information about the program abroad and in the United States. These are made worse by the lack until now of a real "GSP Center" within the government. Third, and last, we think the efforts of the U.S.T.R. to confine "graduation" to specific items from specific countries, under procedures already in place, represents the least disruptive, most effective way consistent with the purposes of the program to deal with the remarkably few problems caused or claimed to be caused by the impact of GSP on U.S. markets.

The U.S. Customs Service, responsible for administration of GSP as it applies to the importation of merchandise, has been consistent, fair and even-handed since the program began. In regard to application of its regulations, Customs has been responsive to the needs of foreign exporters and U.S. importers for information and interpretation. It is unusual for us to be able to say that no major or general problems have arisen with Customs in the five years of GSP, since the initial start-up period.

The Office of the U.S. Trade Representative, too, has performed its major functions in such a way that traders have been able to rely on the program's openness, consistency and, to the extent permitted by the law, on a minimum of uncertainty. U.S.T.R. has tried hard to play the role of government center for the program, and the people involved are to be commended for their extraordinary efforts. Assignment of inadequate resources to GSP, however, has resulted in some problems. Let us emphasize that these problems are small compared to the key positive roles which USTR plays—but they are important, and could be corrected easily. Informa-

tion is important to GSP. In two ways, USTR has proved weak in keeping the public informed. First, publication of the official list of eligible items with product descriptions as it changes from year to year has always been months late. The list for 1980 has yet to be published. Changes in the list of eligible products are published in the annual Executive Order around April 1—but these are lists of Tariff Schedule item numbers without product descriptions, and they convey only changes in status—an Order does not contain a complete list of eligible products, either by Tariff Schedule number or by product description. Similarly, this year, there have been several lists of Tariff Schedule item numbers published by USTR and the International Trade Commission which represent items which are being considered for possible GSP eligibility in the future.

Without product descriptions, such lists are terribly confusing, lead people who might be interested in them to ignore them and afford little real notification to people who might want to support or oppose eligibility. This is particularly true for interested parties in the U.S. who do not deal normally in Tariff Schedule items, such as manufacturers, wholesalers, distributors, retailers, etc. who do not import but who buy from importers as well as trade associations, labor unions, attorneys, etc. in this country, and foreign trade officials and potential exporters abroad. Although the information is available in the Tariff Schedules themselves, lack of product descriptions in government notices and failure to provide a timely list of eligible products limits participation in the procedures. We feel this is especially so when combined with lack of sufficient effort to inform the public about GSP; this limits utilization of the program for traders and limits opportunity to participate in its procedures for domestic interests. This is particularly true, we feel, in the case of the very numerous poor countries which are eligible for GSP but do not achieve much use of it.

For the Bureau of the Census, we mainly have criticism. Problems have plagued Census' role in GSP from the beginning, and this year represents its poorest performance. Accurate and timely statistics are crucial to GSP. Whether or not an item from a particular country will remain or become dutiable or duty-free hinges on prescribed limits based on statistics. For foreign exporters and U.S. importers who must plan and make commercial commitments months in advance—in some cases a year or more—timely, reliable and useful statistics are of critical importance.

U.S. importers, for instance, are now placing orders for goods to be imported and delivered to their customers next Spring and Summer. Sales contracts in U.S. markets—at a firm price—are being concluded now. But Census fails to provide the necessary information. GSP is based on the duty-bearing five-digit Tariff Schedule item number. Census does not publish regularly any statistics on a five-digit basis and it does not publish any GSP-only compilation.

Rather, it publishes information for all U.S. imports on a seven-digit basis, which is confusing to many people not experienced in using the data and which requires extensive and very laborious manipulation to arrive at the necessary five-digit cumulations, and to separate GSP items from the rest of trade. To overcome this problem to some degree, the U.S. Trade Representative arranged for Census to provide a GSP-only, five-digit summary twice a year, based on statistics through June and again through October. Typically, throughout the program, Census has been late. This year, the report for June has not yet been made available by Census. Further, Census has yet to reflect in its statistics the thousands of changes in the Tariff Schedules brought about by the Multilateral Trade Negotiations implemented in January and July of this year. The result is that in many cases Census is reporting data under both new and old Tariff Schedule item numbers—without indicating in any way that such is the case. Obviously, unless an investigator knows to combine data from both old and new numbers, the result will be serious underestimation of current volume of trade, with the real danger of forecasting error with severe economic consequences. (In an effort to overcome these shortcomings, our Association publishes each month a GSP "warning" list based on government statistics.) Lastly, we must note that Census makes monthly statistics regularly available only in microform or on computer tape—both unusable by most businesses. A "hard" copy must be especially ordered and is expensive. Printed annual statistics lag too—1978 figures were published only two or three months ago.

Our last point concerns "graduation." Various proposals have been made to limit use of GSP when an exporting country gives evidence of no longer needing the competitive edge GSP can afford. Strictly in terms of the implications for the commercial realities of trade—the need for predictability, for consistency, for simple, direct and understandable procedures, and for the elimination of as much uncertainty and doubt as possible, we support the position of the U.S.T.R. that the issues can and should be dealt with on a product-by-product basis under existing procedures. GSP-eligible items, like all imported merchandise, are subject to the full

array of protection against problems created by imports, including the "import sensitive" provisions of Title V of the Trade Act of 1974 itself. Further if GSP-eligible products are the subject of "import relief" measures as a result of escape-clause cases, or if they are textile and apparel products and become subject to restraint agreements, they automatically lose GSP eligibility. It seems to us that there is little need for further GSP restrictions to protect domestic industry, and that imposition of new restrictions will have negative effects far beyond any specific actions which may be taken under the new provisions. It seems notable to us that in the five years of operation of GSP very few items have been the subject of dispute or complaint by domestic industry. Imposing new restrictions—more importantly, imposing the constant threat of new restrictions—will introduce new elements of uncertainty and risk, which, we feel, are bound to limit use of the program generally. Further, such new restrictions will add unnecessary and complex burdens to the day-to-day operation of the program.

These last comments, of course, apply in an operational sense to S. 3165. We hope that this bill will be examined carefully by the Committee and by USTR in light of our obligations to the GATT. We hope, too, that close study will be made of the potentially enormous burden placed by the bill on the ITC. Further, implementation of the system proposed by the bill will be an administrative nightmare, with differing competitive need limits for different items, with effective suspension of benefits and uncertainty of outcome while a case proceeds through a period of up to six months and with differing termination dates for eligibility in some cases. Viewed against the criticisms we have already expressed in regard to the government's performance in making timely and accurate information widely available, we fear that passage of S. 3165 will create enormous difficulty for the government and will both directly and indirectly speak against the purposes of the program.

GSP benefits are not a pool. GSP is not a zero sum game. We do not believe that limiting or removing benefits of the major beneficiaries will help in any way the 135 poorest countries who seem to benefit least. I say seem because comparison of total dollars between large exporters and small ones does not tell us anything of the relative economic benefit to those countries. \$5 million of exports of an item might well have an enormous impact on a poor country, might well establish an industry there, while \$25 million of exports from a more developed country might well be of negligible importance.

My point is that GSP is already important to many of the poorest countries, despite the low level of activity. We believe the problems of improving use of GSP by the poorest countries hinges on two sets of issues. First, which is not the subject of this hearing, is the problem of infrastructure and existing economic capability in the developing country. The second set of issues, however, relates directly to our review.

Briefly, it is importers in the U.S. and exporters abroad who do trade in GSP. If GSP trade is to be greatly expanded with the poorest countries, help will have to be given directly to those importers and exporters, in finding each other, in overcoming obstacles of language and cultural differences, in facilitating financial and credit difficulties, and particularly in learning about GSP and in coping with the procedures in commercial terms. This is particularly so in regard to the very numerous small exporters and small U.S. importers who constitute an important part of this trade now, and who would be instrumental in efforts at significant growth.

Large importing companies are interested in large suppliers. With the exception of natural resources, food products, and some tropical goods, there are few large suppliers in the countries we speak of. An ongoing, consistent, knowledgeable program with sufficient resources to encourage increased use of GSP by the poorest countries must be directed both to U.S. importers and to foreign exporters. This effort will require resources far beyond those presently committed to GSP.

The last point that I would like to make is in regard to 3165 and to 3201. If we graduate the largest GSP exporters to the United States as countries entirely, our expected effect would be nothing but an inflationary price rise generally in the United States of the affected products, and possibly a reduction in U.S. exports to those countries as our customers.

In fear that the bulk of my time has been spent in criticism, I want to repeat again that GSP is working well, that it has presented few problems and that it has been of real benefit to the poor and developing exporting countries which it was intended to help. We thank you, once again, for this opportunity to appear and comment.

STATEMENT OF TED ROWLAND, STAFF ECONOMIST, AMERICAN IMPORTERS ASSOCIATION

Mr. ROWLAND. Mr. Chairman, you have our statement, so I will summarize briefly the beginning of it, tell you what our interest is, and then speak what little I can about graduation.

Our association has 1,300 corporate members who import everything from everywhere. About half of them use GSP. Of the other half, some have no interest whatsoever; they don't deal in GSP eligible goods, and the others are in fact competitors of GSP eligible products. And for that reason, our association has never taken a position on GSP in general.

We have, however, been in effect the information center which the Government never successfully established for the GSP program and its administration by Customs and STR.

My comments in the testimony, therefore, were mainly administrative, and I will skip over them except for one point. Senator Moynihan made a point of the fact that it was difficult to get information from the Japanese, which it sometimes is. In my testimony you will notice that I criticize Census. Our problem is getting information on GSP in time to do foreign exporters and U.S. importers any good.

In regard to graduation, various proposals have been made to limit the use of GSP when an exporting country gives evidence of no longer needing the competitive edge which GSP can afford. Strictly in terms of the implications for the commercial realities of trade, the need for predictability, for consistency, for simple, direct and understandable procedures, and for the elimination of as much uncertainty and doubt as possible, we support the position of the USTR that the issues can and should be dealt with on a product-by-product basis under existing procedures. GSP eligible items, like all imported merchandise, are subject to the full array of protection against problems caused by imports, including the import-sensitive provisions of title V of the Trade Act of 1974.

Further, if GSP eligible products are the subject of import relief measures, as a result of escape clause cases, or if they are textile and apparel products and become subject to restraint agreements, they automatically lose GSP eligibility.

It seems to us that there is little need for further GSP restrictions to protect domestic industry—that is not to say domestic industry doesn't have problems—and that imposition of new restrictions will have negative effects far beyond any specific actions which may be taken under the new provisions.

It seems notable to us that in the 5 years of operation of GSP, very few items have been the subject of dispute or complaint by domestic industry. Imposing new restrictions, more importantly, imposing the constant threat of new restrictions, will introduce new elements of uncertainty and risk which we feel are bound to limit use of the program generally. Further, such new restrictions will add unnecessary and complex burdens to the day-to-day operation of the program.

These last comments, of course, apply in an operational sense to S. 3165. We hope that this bill will be examined carefully by the committee and by USTR in light of our obligations to the GATT.

We hope, too, that a close study will be made of the potentially enormous burden placed by the bill on the ITC.

Further, implementation of the system proposed by the bill will be an administrative nightmare, with differing competitive need limits for different items, with effective suspension of benefits and uncertainty of outcome while the case proceeds through a period of up to 6 months, and with differing termination dates for eligibility in some cases.

Viewed against the criticisms that we have already expressed in regard to the Government's performance in making timely and accurate information widely available, we fear that passage of S. 3165 will create enormous difficulty for the Government, and will both directly and indirectly speak against the purposes of the program.

There is a missing section in our prepared testimony, and I would like to add that.

GSP benefits are not a pool. GSP is not a zero sum game. We do not believe that limiting or removing benefits of the major beneficiaries will help in any way the 135 poorest countries who seem to benefit least. I say seem because comparison of total dollars between large exporters and small ones does not tell us anything of the relative economic benefit to those countries; \$5 million of exports of an item might well have an enormous impact on a poor country, might well establish an industry there, while \$25 million of exports from a more developed country might well be of negligible importance.

My point is that GSP is already important to many of the poorest countries, despite the low level of activity. We believe the problems of improving use of GSP by the poorest countries hinges on two sets of issues. First, which is not the subject of this hearing, is the problem of infrastructure and existing economic capability in the developing countries. The second set of issues, however, relates directly to our review.

Briefly, it is importers in the United States and exporters abroad who do trade in GSP. If GSP trade is to be greatly expanded with the poorest countries, help will have to be given directly to those importers and exporters, in finding each other, in overcoming obstacles of language and cultural differences, in facilitating financial and credit difficulties, and particularly in learning about GSP and in coping with the procedures in commercial terms. This is particularly so in regard to the very numerous small exporters and small U.S. importers who constitute an important part of this trade now, and who would be instrumental in efforts at significant growth.

Large importing companies are interested in large suppliers. With the exception of natural resources, food products, and some tropical goods, there are few large suppliers in the countries we speak of. An ongoing, consistent, knowledgeable program with sufficient resources to encourage increased use of GSP by the poorest countries must be directed both to U.S. importers and to foreign exporters. This effort will require resources far beyond those presently committed to GSP.

The last point that I would like to make is in regard to 3165 and to 3201. If we graduate the largest GSP exporters to the United States as countries entirely, our expected effect would be nothing

but an inflationary price rise generally in the United States of the affected products, and possibly a reduction in U.S. exports to those countries as our customers.

Thank you very much.

Senator CHAFEE. Well, thank you very much, Mr. Rowland.

Of course, that prior testimony we had some suggestions about a two-tier system to help those lesser developed countries, if you would.

One thing that could help me is you are in the import side of the business, and in that capacity you see what other countries do to remove disincentives, as it were, to their nations in increasing their exports to the United States. You must see some notable comparisons versus the U.S. disincentives that are imposed by our laws, tax laws primarily, I suppose, on Americans trying to operate abroad, and I would be interested in your thoughts on, what those disincentives are and what we might view. In other words, what I am always looking for is not necessarily to cut off imports into this country, but we are a big importer suffering a balance of trade deficit, but I certainly want to see us, the United States, have every opportunity to trade abroad that should exist, or that can exist, and to remove the disincentives that exist for American exporters.

Do you have any thoughts on that?

Mr. ROWLAND. Yes, we do, sir. We have always encouraged exports, and for a variety of reasons, we are becoming much more active on that front now. We recently did a survey and about 40 percent of our members are exporting from the United States.

We agree with you that the disincentives to exporting from the United States are very serious and do limit our trade and our competitive capabilities.

Senator CHAFEE. Well, I am not asking you to go into those today, but I would appreciate it if you would write me some suggestions you had wearing your export hat on, what we can do in the United States to reduce those disincentives.

Mr. ROWLAND. One of the things I can point out, in addition to the disincentives, Americans have never been committed exporters.

Senator CHAFEE. Well, I think that is true.

Mr. ROWLAND. And for instance, there is no American exporters association.

Senator CHAFEE. I think that is part of it.

Mr. ROWLAND. Which reveals a state of mind.

Senator CHAFEE. True. There is such a big market in the United States that people don't tend to look overseas enough. That's true, and I grant that. I think that is very valid.

But also there are some specifics that you might have. There are indeed, and you know, 911 and 913, those we are familiar with, but there are others that I would appreciate hearing from you.

I am going to include some articles in the record here, and we will leave the record open for the next 2 weeks if anybody wishes to submit any further testimony, because this is a very important subject. I don't think we should be like a bull in a china shop, charging in. This has been valuable and helpful to me, and I am sure to the others on the committee.

[The information referred to follows:]

[From the Journal of Commerce, Oct. 20, 1980]

IMPORTS WORRYING STATE'S JEWELRY MANUFACTURERS

(By Lewis Brigham)

Providence.—Population and geographic locations aside, Detroit and this capital city of Rhode Island have a good deal in common. What automobile production represents to the "Motor City," jewelry manufacturing does to Providence.

Without question the nation's leading jewelry center, one-third of all jewelry and related materials manufactured in the United States last year were shipped from this city for a total of \$1.3 billion.

Only New York City's jewelry centers in Manhattan come even close to challenging this city's hold on the nation's jewelry business. Of 340 plants in the United States which manufacture costume jewelry, 48.9 percent are in Providence and 16.9 percent in Manhattan. Of 460 plants producing precious metal jewelry, Manhattan, with 22.3 percent, has a slight lead over Providence's 15.2 percent. But when it comes to jeweler's materials and lapidary work, Providence boasts 51.7 percent of the 96 plants engaged in such work, while Manhattan has 18 percent.

In short, jewelry manufacturing is indisputably Rhode Island's largest single industry just as automaking has dominated Detroit's industrial scene. Both already have been hurt by the present recession, but share a far greater economic threat—imports of competitive products from abroad.

It's hardly news that Detroit's economic structure is in complete disarray ever since less expensive, more fuel-efficient autos manufactured overseas began to dominate the American consumer market.

But a similar, but far less publicized, threat to Rhode Island jewelry manufacturers is now being posed by the importation of 23 classifications of jewelry into the United States duty-free from manufacturers overseas.

Allowed in under the Generalized System of Preference, this duty-free entry of jewelry from abroad is making for major cuts in U.S. jewelry manufacturing profits and causing increased unemployment in the jewelry industry.

Chronically recession-sensitive, Rhode Island already feels the impact of unemployment in the jewelry trades caused by the present economic downturn. And Matthew A. Runci, an official with the locally based Manufacturing Jewelers and Silversmiths of America, says unemployment in his industry is three-to-five points higher than the 12 percent jobless figure presently offered by the R.I. Bureau of Labor for the jewelry manufacturing industry.

In a separate study conducted by his office, U.S. Sen. John Chafee, R-R.I., claims this state lost 5,300 jewelry manufacturing jobs last year and places primary blame for this rise in unemployment on the duty-free jewelry imports.

Mr. Runci concurs. His organization has just received a \$75,000 grant from the federal Economic Development Administration to finance a study into how the American jewelry industry can cope with challenges posed by imports.

How to step up exports of U.S.-made jewelry figures to be a major consideration in the MJ&SA study, Mr. Runci says.

To the local jewelry industry official, an increase in export trade has become essential because the jewelry industry "is being sacrificed by administration policies to benefit other segments of the economy."

His reference here is to the GATT schedules—ratified by 99 nations including Japan and those of Western Europe in the Philippines last year—which began lowering import duties on most goods an average of 31 percent over an eight-year installment period. The first reduction was made on Jan. 1.

But the structuring of the new GATT reductions is unfair to jewelry manufacturers, Mr. Runci contends. These reductions, he says, are much higher than the average, ranging from 46 percent (on precious metal jewelry and parts) to 60 percent (on base metal jewelry, some types of chain jewelry and some watchbands).

Such cuts in duty charges on imported jewelry items can only aggravate the already high unemployment level in the industry and help jewelry makers from overseas capture an even larger share of the U.S. market.

[From the Providence Journal, Aug. 13, 1980]

IMPORT RULE CHANGE COULD HIT JEWELRY FIRMS HARD—MJSA

(By Clyde H. Harrington)

Providence.—Manufacturers of precious metal jewelry chains in the Rhode Island—Attleboro area could be hard hit by a flood of imports as the result of a

decision by the Carter administration to permit a change in the import rules, a jewelry-industry spokesman said yesterday.

Matthew A. Runci, executive assistant to George R. Frankovich, vice president/executive director of the Manufacturing Jewelers & Silversmiths of America Inc., said that while the major impact of the change in the U.S. Generalized System of Preferences (GSP) program will be on the area's chain industry, it also could hurt other segments of jewelry making.

Runci also said he presumes that the move is related to political or foreign policy interests, though he has no evidence to support this.

The GSP program was designed to help the economies of underdeveloped countries by permitting these nations to export goods duty-free up to certain annually adjusted ceilings.

Under the latest change, one precious-metal-jewelry category with a \$42-million ceiling has been divided into five categories of \$42 million each, which effectively raises the ceiling on this classification of imports from \$42 million to \$210 million.

Meanwhile, Sen. John H. Chafee, a member of the Senate subcommittee on International Trade, said he was "bitterly disappointed and distressed" by news that the administration had refused to reconsider its decision to increase duty-free imports of jewelry from developing nations.

Chafee said he and Sen. Claiborne Pell had wired Reubin Askew, President Carter's special trade representative, seeking a review of the decision and attempting to convince him of the seriousness of the situation.

Only three months ago, Chafee testified before the House International Trade subcommittee that in the 12 months ending in March, some 5,300 jewelry industry jobs had been lost in Rhode Island, at least some of which could be attributed to increased imports.

It was announced in Washington yesterday that the Trade Policy Committee, under the direction of Askew, had rejected a petition of protest filed by the MJSA for review of the decision to make five separate categories of gold jewelry out of the single, current eligible category.

The category that was changed, known as "740.10," was characterized by Runci as a "basket" category, which included chain and other precious jewelry groups, that now will be divided into five separate categories, beginning next March.

Involved in these five is jewelry composed principally of gold or platinum-group metals. The categories do not include sterling-silver items or costume jewelry.

The new categories are classified as follows:

740.11—rope-style necklaces and neck chain, almost exclusively of gold.

740.12—mixed link-style necklaces and neck chains, almost wholly of gold.

740.13—other necklaces and neck chains almost wholly of gold.

740.14—other jewelry of precious metals other than necklaces and neck chains.

740.15—other jewelry in which the chief value lies in other than its precious metals, for example, in which diamonds or other stones have greater value than the base metal framing them.

Since three of the five new categories are of chains, the impact on one part of this area's jewelry-making industry will be particularly severe, Runci said.

The prime beneficiary of the new policy would appear to be Israel.

That nation sought last summer to have the precious metals "basket" category split into a number of separate categories. Runci estimates that as much as 70 to 80 percent of Israel's jewelry dollar-volume exports to the United States are in precious-metal chain.

Asked if he believed that the administration's decision was designed to favor Israel, Runci replied:

"I have no evidence, but I can presume that this is related to political or foreign policy interests."

Runci also said that Israel last year appeared initially to have exceeded existing export ceilings under the GSP program and thus would have lost its export privileges to this country for 12 months. However, he said, a review found that Israel "really hadn't" topped its ceiling.

[The Evening Times (Pawtucket, R.I.) Aug. 19, 1980]

JEWELRY IMPORTS: A BAD DECISION

The decision by the federal government to allow a substantial increase in duty-free jewelry imports from developing nations is a shocking slap in the face to the area's important jewelry industry. And the refusal to reconsider the decision may end up costing jobs and business growth.

The decision by the Trade Policy Committee (TPC) calls for a 500 percent increase in duty-free jewelry imports. Already it is drawing protests. And it should.

The Providence-based Manufacturing Jewelers and Silversmiths of America, which represents 2,000 manufacturers of precious metal and costume jewelry, filed a protest against the decision, but the TPC rejected it. Now, Rhode Island political leaders are beginning to put pressure on the Carter administration to reverse the decision. Sen. John Chafee, R-R.I., says he is "bitterly disappointed and distressed" by the Carter administration's refusal to reconsider the quota standard and forecasts that "an increase of this magnitude will cause serious harm" to an industry which is so important to Rhode Island and Southeastern Massachusetts. Mayor Vincent A. Cianci Jr. of Providence, the Republican candidate for governor, says the decision is "reprehensible." Claudine Schneider, the Republican candidate for the state's Second District congressional seat, terms it "deplorable." and State Sen. Stephen J. Fortunato, primary election challenger to U.S. Rep. Edward P. Beard, focused his wrath on the state's incumbent congressmen for not making an effort to persuade the Carter administration to reverse the decision. A day or two later, Congressman Beard joined the critics of the imports decision.

We hope the mounting chorus of criticism has some impact. It seems to defy all logic that the TPC could make such a decision and the Carter Administration could refuse to reconsider it at a time when so many people in the industry are doing all they can to keep their business prosperous and prevent further job losses. The decision should be reversed.

[From the Providence Sunday Journal, Nov. 16, 1980]

JEWELRY'S WORST YEAR IN 30 HOLDS ISOLATED SUCCESSES

(By Gregg Krupa)

Rhode Island's jewelry industry may be enduring its worst sales year in the last 30 years, but many producers of what the manufacturers call staple products, are avoiding the skid. The purchase of crucifixes, other religious items and "romance jewelry," like heart-shaped assemblies, defies the normal rollercoaster demand for jewelry, providing owners with a stable business and employees with regular jobs.

An informal survey late last week of jewelry companies in northern Rhode Island, the state considered the country's jewelry industry capital, revealed that sales are poor.

Business is so bad that some owners and managers of factories, when informed of the intent of the interviews, ended conversations abruptly, saying they did not want any publicity. An owner of a large assembly plant in Pawtucket said, before banging down the receiver, "If you want to do a survey, mail me a questionnaire. But don't do it until next year."

Other manufacturers, however, were happy to talk about the market. They said they were doing well. These industry sources said that they make those products that people buy no matter how bad the economy is.

"Look, people fall in love or pray no matter how much money they have," said the owner of one assembly plant. "In fact, just thinking about it, it seems to me the less money you have, the more you're likely to do both. So, if you're making emblems, like heart pins, pendants, initials, that people buy for their loved ones, or religious stuff, you're probably not doing too bad, or at least not as bad as everyone else."

"We're doing much better than the industry as a whole," said Alan M. Kaufman, vice president of Tru-Kay, a jewelry manufacturing company in Lincoln.

Kaufman says the Tru-Kay's success is due to good planning, steering away from booms and busts, anticipating that something will sell steadily over a period of time so that inventories do not have to be remade.

Tru-Kay specializes in pendants.

"We're just not into the fashionable type things in the sense that what we have now that's selling good will also be selling good six months from now. Look, a heart pearl pendant sells at all different times of the year," Kaufman said.

"I know the costume (jewelry) business is bad and precious seems to be way off, too," he said. "Those guys really expose themselves to differences in taste and style from season to season, month to month."

About 50 workers are presently employed at Tru-Kay. That is just a few less than were employed last year, Kaufman said. Statewide, industry and organized labor sources agree, 18 percent of the jewelry workers employed during peak demand periods are now unemployed, that is some 3,800 workers.

Regina Manufacturing presently employs 22 people, the same number that worked in the Pawtucket plant last year.

The company sells religious articles, mostly jewelry, to outlets across the country according to Oscar J. Cloutier, who has owned the company since it first opened its doors on Webster Street in 1950. Business is almost always steady.

"We sell crosses, rings, chains, a predominantly Catholic religious goods inventory," Cloutier said. "It was nothing planned, that just happens to be the type of thing we manufacture."

"I had worked with people in jewelry before and I just decided, back then, that I wanted to work on my own, to be my own boss," Cloutier said. "I can't really explain why business is steady."

George R. Frankovich, vice president and executive director of Manufacturing Jewelers & Silversmiths of America, said that high fashion and costume jewelry manufacturers run the risks of changing fads, fashions and seasons of the year. In addition to general economic woes, there is currently no fad in the business and no new fashions have caught on either, Frankovich said.

"We just don't have, as they put it, a hot item right now," he said.

One fad a few years ago was the mood ring.

"It came in like a whirlwind," Frankovich said. "Then it died. If you'd like to buy a few car loads of jewelry, I can get you some mood rings. I could fix you up real cheap."

"Our staple producers, as usual, aren't suffering like the others. Ordinarily 65 percent of our annual sales are done in the last quarter. This year the rush could hardly be described as a rush," Frankovich said. "It's not likely that it will be enough to save us from what looks like the worst year we've had in 30 years."

ANATONE JEWELRY Co.,
North Providence, R.I., December 6, 1980.

Senator JOHN H. CHAFEE,
Senate Office Building,
Washington, D.C.

DEAR SENATOR CHAFEE: I wish to thank you for initiating an investigation into the jewelry imports tariff regulations.

I am sure your committee will find that the jewelry industry has become the sacrificial lamb and doomed to extinction because of the relaxation of importation duties on finished jewelry that is being flooded into the American marketplace due to the country's General System of Preferences for the nations of Taiwan, Korea, Phillipines, Thailand and Hong Kong.

As an importer of jewelry component parts as well as finished jewelry, I have taken it upon myself to refuse to bring any finished jewelry into this country as I feel it would only serve as a further detriment to the jewelry manufacturers to whom I service. I realize that this will cause me loss of income. However, I feel that my first obligation is to the welfare of my customers (the jewelry manufacturers of America) and secondly, to my overseas suppliers.

I strenuously urge that your committee institute a serious and most thorough investigation and seek the reinstatement of duties on all finished jewelry regardless of country of origin. Furthermore, I strongly believe that a duty should be affixed at a minimum rate of 33 percent to perhaps a maximum of 50 percent, and only if the duties are imposed can we hope to save and salvage our once proud heritage as being the jewelry capital of the world.

Very truly yours,

JOHN J. ANATONE.
AUTOMATIC CHAIN Co.,
Providence, R.I., December 4, 1980.

Hon. JOHN H. CHAFEE,
Dirksen Senate Office Building,
Washington, D.C.

DEAR SENATOR CHAFEE: I recently read an article in Women's Wear Daily about the upcoming Senate probe into the Generalized System of Preferences and the effect duty-free imports have on our domestic industry. I was especially pleased to read that you will be Chairman of the subcommittee hearing into GSP as you are aware of the effect duty-free products have on the jewelry industry.

As you know, the jewelry industry has been plagued by many problems of late, particularly by erratic gold and silver markets and high interest rates. To add insult to injury, we allow certain nations to import jewelry duty-free, thereby enabling foreign competitors to sell jewelry in this country for less money than what we can manufacture it for. This, of course, causes loss of sales with the net result being

reduced production and loss of jobs for many Rhode Islanders since our state produces approximately one-third of the jewelry manufactured in the United States.

We know you will do your utmost to overhaul the GSP and curb the influx of duty-free products into this country. However, if we can do anything to assist you, please do not hesitate to contact us. We were active in helping to elect Claudine Schneider, and will be more than happy to assist you on the above since we feel that you and Claudine will make a great team in Washington.

I look forward to hearing from you.

Sincerely,

HERBERT E. KAPLAN,
President.

WALIGA IMPORTS & SALES, INC.,
Johnston, R.I., November 6, 1980.

Senator JOHN H. CHAFEE,
*Senate Office Building,
Washington, D.C.*

DEAR SENATOR CHAFEE: I wish to thank you for initiating an investigation into the Jewelry imports tariff regulations.

I am sure your committee will find that the jewelry industry has become the sacrificial lamb and doomed to extinction because of the relaxation of importation duties on finished jewelry that is being flooded into the American marketplace due to the country's General System of Preferences for the nations of Taiwan, Korea, Philippines, Thailand and Hong Kong.

As an importer of jewelry component parts as well as finished jewelry, I have taken it upon myself to refuse to bring any finished jewelry into this country as I feel it would only serve as a further detriment to the jewelry manufacturers to whom I service. I realize that this will cause me loss of income. However, I feel that my first obligation is to the welfare of my customers (the jewelry manufacturers of America) and secondly, to my overseas suppliers.

I strenuously urge that your committee institute a serious and most thorough investigation and seek the reinstatement of duties on all finished jewelry regardless of the country of origin. Furthermore, I strongly believe that a duty should be affixed at a minimum rate of 33 percent to perhaps a maximum of 50 percent, and only if the duties are imposed can we hope to save and salvage our once proud heritage as being the jewelry capital of the world.

Very truly yours,

WILLIAM WALIGA.

DANECRAFT, INC.,
Providence, R.I., September 9, 1980.

Hon. JOHN H. CHAFEE,
*Senator, Co-Chairman of the Congressional Jewelry Coalition,
Washington, D.C.*

DEAR SENATOR: It is encouraging to learn that a grant has been approved by the Economic Development Administration to study the jewelry industry's problems. Obviously, a stronger voice was needed in the past to prevent the expansion of duty free imports.

Now that the industry is in a defensive and highly vulnerable position and does not yet have the stronger voice, the only question remains is, will there be much of the American jewelry industry left by the time the study is complete and appropriate actions are initiated? The industry as you know, is in serious trouble now and immediate holding actions are needed to prevent further disintegration.

Further, the continuing fluctuations in the gold and silver commodities markets makes it near impossible to plan our business in a smooth and orderly manner. Thousands of Rhode Island jobs have been lost due to the impact of high and increasing commodity prices and the impact on units produced. Is there any relief in sight? Stable commodity prices are a must if the American jewelry industry is to survive this current vise of duty free imports and out of control raw material costs.

I expect that one afternoon session with selected jewelry industry representatives would provide sufficient input to answer the five major questions that this proposed study covers. It is unclear why thirteen months and \$100,000 are necessary when the "new protections" are needed immediately.

Senator, your interest, involvement and support of the jewelry industry is public knowledge. We in the industry are fortunate for your efforts in our mutual behalf.

However, the letter of September 8, 1980 does not reflect the urgency that is needed. Please give this plea your consideration. Thank you.

Sincerely,

ARTHUR CAIN,
Vice President/General Manager.

OFFICE OF THE U.S. TRADE REPRESENTATIVE,
EXECUTIVE OFFICE OF THE PRESIDENT,
Washington, D.C., October 7, 1980.

Mr. GEORGE R. FRANKOVICH,
Vice-President/Executive Director, Manufacturing Jewelers and Silversmiths of
America, Inc., The Biltmore Plaza Hotel, Providence, R.I.

DEAR MR. FRANKOVICH: This letter is to confirm our conversation of August 13 at this Office. That is, we determined after careful consideration that the petition submitted by the Manufacturing Jewelers and Silversmiths of America, Inc., to redesignate prospective TSUS items 740.11-740.15 as TSUS item 740.10 did not warrant further review and was therefore denied.

As I noted at our meeting, a key reason for this action was the fact that the question of whether to create new subdivisions from existing TSUS item 740.10 received a fair and very thorough hearing during the 1979 GSP product review. A review of the transcripts from the public hearing on this issue and the briefs submitted by your association show that your group had several opportunities to respond specifically to the details of new categories. Your position, however, was in opposition to any subdivision that would allow GSP eligibility on gold jewelry to continue. Since the inception of the GSP program this Office has on numerous occasions recommended subdivision of tariff classifications in order to meet the objectives of the law. This long-standing administrative practice has never been challenged. In our view, there is no question of the President's legal authority to act in this manner. In this specific case, it was considered consistent with the program's intent of aiding the development of beneficiary countries to grant the Israel Export Institute's request to subdivide TSUS 740.10. This action was taken in response to the large and rapid escalation in gold prices.

An additional reason for denying your association's petition was the fact that the five new TSUS items for gold jewelry created by Executive Order 12204 will not be implemented until March 31, 1981, and obviously to date have had no adverse impact on the domestic industry. In addition, it was further noted that GSP duty-free imports represented only 10 percent of total U.S. imports under item 740.10 in 1979. Further, imports from GSP countries have been declining as a share of total gold jewelry imports.

The five new classifications to be implemented in 1981 are based on advice received by the Trade Policy Staff Committee from the U.S. International Trade Commission and the U.S. Customs Service. Experts at these two agencies determined that the new categories recommended by the Israel Export Institute's petition were impossible to administer and, thus, based on their knowledge of the industry and customs practices, proposed the five classifications announced in Executive Order 12204. If the Manufacturing Jewelers and Silversmiths Association considers the descriptions for these new classifications to be incorrect and inconsistent with industry practice, I would encourage the Association to submit this information informally in writing along with recommendations for different classifications.

The denial of your petition does not prevent the submission of a petition to the GSP Subcommittee on these products in the future, in accordance with applicable regulations. If you should have any further questions, please feel free to call me at (202) 395-6971.

Sincerely,

TIM BENNETT,
Executive Director, GSP Subcommittee.

Senator CHAFEE. This, as I mentioned earlier, is but a beginning. It is an area where I intend to maintain my interest and leadership, as it were.

So I am open to further testimony that others might choose to submit.

As I mentioned earlier, we will be continuing on this next year. These are preliminary hearings. We will be having other hearings.

We want the ITC to go ahead with that study of the duty-free imports and the effect upon U.S. manufacturers.

Thank you very much, all the witnesses. I appreciate each of you coming, and it has been very, very helpful, and we will be getting into more of this in the future.

Thank you.

That concludes the hearing.

[Whereupon, at 1:08 p.m., the subcommittee recessed subject to the call of the Chair.]

[By direction of the chairman the following communications were made a part of the hearing record:]

American Farm Bureau Federation



WASHINGTON OFFICE
425 13TH STREET, N.W.
WASHINGTON, D. C. 20004
AREA CODE 202 - 637 - 0800
CABLE ADDRESS: AMFARMBUR

November 25, 1980

Mr. Michael Stern
Staff Director
Committee on Finance
Room 2227
Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. Stern:

In response to Senator Ribicoff's invitation for comments on the "first five years' operation of the U.S. Generalized System of Preferences (GSP) and on proposals to modify the program," we offer the following comments and ask that they be included in the printed record of the hearing.

The American Farm Bureau Federation opposes special unilateral tariff concessions to developing countries. The Generalized System of Preferences, which grants duty-free treatment to developing countries, was opposed by the Farm Bureau at the time of enactment of the Trade Act of 1974, even though we supported the other provisions of the Act.

Our general opposition to granting of duty-free treatment to imported articles, products, and commodities continues. We believe that tariff concessions should be granted only in the negotiating process where such concessions are received as well as granted.

Farm Bureau strongly supported the MTN results and the Trade Agreements Act of 1979; however, we feel that the idea of a generalized system of preferences is inconsistent with the most-favored-nation principle, which is the foundation of the General Agreement on Tariffs and Trade (GATT). Such preferences create serious problems for some domestic producers. Further, many of the developing nations shipping agricultural products to the United States under the GSP are already highly competitive, are often financed by U.S. capital, and employ U.S. technology. Consequently, they should be accorded only the tariff treatment accorded the most favored nations.

We shall appreciate consideration of our views as the Congress studies this trade matter and considers modifications of the present legislation.

Sincerely,

Vernie R. Glasson
Director
National Affairs Division

cc: Members of the
International Trade
Subcommittee

BEFORE THE COMMITTEE ON FINANCE
SUBCOMMITTEE ON INTERNATIONAL TRADE
UNITED STATES SENATE

Hearings To Review The
Operation of the U.S.
Generalized System of Preferences

STATEMENT OF
THE CLING PEACH ADVISORY BOARD

INTRODUCTION

This statement is submitted on behalf of the Cling Peach Advisory Board (the Board). The Board, which represents all peach producers and marketers in the State of California, is organized pursuant to statutory requirements of the State of California. The Board engages in market development, promotional, advertising, research, and quality control programs, as well as matters involving public affairs for its members. There are approximately 1100 peach growers in California who grow over 40,000 acres of cling peach trees. This is an average of about 30 acres per grower.

Cling peaches are marketed in the form of canned peaches, canned fruit cocktail and other products containing cling peaches. Total sales are close to \$600 million on an annual basis.

The Board greatly welcomes this Subcommittee's review and oversight of the U.S. GSP program at the midway point of its Congressional authorization. Underscoring our very real concern over the direction and administration of the GSP program is the fact that, numerous times, most recently in the past three months, the Board has appeared before and presented written briefs to both the United States Trade Representative and the International Trade Commission opposing those bodies' consideration of the expansion of the GSP list to include items of concern to our industry.

THE GSP PROGRAM SHOULD BE ELIMINATED ENTIRELY

Under Title V of the Trade Act of 1974, the U.S. GSP was authorized by Congress as a temporary, ten-year program. Since the program is designed as a nonreciprocal tariff-preference measure and thus distorts free and open international trading, Congress wisely limited its duration. Any indication that the United States intends to continue granting new GSP benefits beyond the ten-year limit would be violative of the original Congressional intent and would institutionalize an inherently anti-competitive trading system. For this reason, the Board submits that the U.S. GSP program should be brought to an end.

The U.S. GSP program has now been in operation for five years. Since the time is soon due for all program benefits to expire, the United States should actually be in the process now of phasing out benefits already granted. At the very least, new extensions of GSP benefits should not be provided at this late date as it would be inconsistent with the Congressional intent that this be a temporary program.

This point is underscored by the President in his own report to Congress on the GSP program. In that report, it is stated that: "The temporary nature of GSP tariff preferences...militates against basing long-term planning and decisions to invest in new sectors on the existence of a GSP tariff preference." Ways and Means Committee Print 96-58, 96th Cong., 2d Sess. 1980, p. 63.

The GSP program was originally designed to temporarily help developing countries expand their exports, diversify their economies, spur the process of development and lessen their dependence on external foreign assistance. If the United States does not signal to the trading world that it fully intends to phase out these temporary nonreciprocal tariff preferences, our trading partners will justifiably assume that such preferences have become a permanent ingredient in our nation's trade structure. This will, of course, be

inconsistent not only with the Congressional intent of authorizing a temporary import-relief program, but also with our nation's principal objective in the conduct of international trade; i.e., "a fairer and more open trading system that will benefit U.S. citizens". 24th Annual Report of the President of the United States on the Trade Agreements Program, 1979, p. iii.

PRESIDENT'S REPORT

Pending the phase-out of the GSP program, certain worthwhile modifications should be pursued. In this regard, the "Report of the President on the First Five Years' Operation of the U.S. Generalized System of Preferences" of April 17, 1980 is one of the most comprehensive and rational reports to Congress on this subject that is known to us. The report itself acknowledges both successes and failures of the GSP program, and suggests possible improvements.

In reviewing the status of the GSP program, we urge Congress to consider three points raised in the President's Report: (1) the need to develop a specific "graduation" policy; (2) the importance of making the U.S. program comparable with the system of other countries; and (3) the sensitivity of U.S. agricultural products to any such program.

I. The Development of a Specific "Graduation" Policy.

The inclusion of a "graduation" principle in GSP seems to be universally accepted, however, we do not believe sufficient progress is being made to develop such a policy. Defining certain developing countries as "least developed" implies that some criteria already exists insofar as "graduation" is concerned. However, to the best of our knowledge only a very subjective test is implemented which involves the level of a country's economic development, including factors such as per capita gross national products and living standard.

It should be noted that the ten countries benefiting most greatly from our GSP program account for approximately 83% of total imports. Concentration of this magnitude suggests that some of the less developed countries have now "graduated".

The concept of differential treatment of GSP eligibles has been established. The longer that "graduation" criteria remain unspecified, the greater the likelihood that "graduation" will never be realized. This delay will have the effect of defeating the intent and purpose of GSP. It also creates great uncertainty among eligible and non-eligible countries, both of which have difficulty in developing long

range export/import plans without the ability to measure the extent of GSP participation.

II. Failure to Properly Consider Comparability.

The President's Report contains a remark to the effect that all commenting countries concurred that the duty-free treatment of the United States system was preferable to the systems of the European Economic Community and Japan. This provides us with a significant warning that the realization of equitable GSP procedures is imperative. Section 1 of Title V of the Trade Act of 1974 authorizing this preference requires the President to have due regard for comparable GSP actions by other major developed countries. We believe that the U.S. Government has been remiss in this regard, thus creating situations where trade diversion takes place. The following table is illustrative of the relative attractiveness of the United States, European Community and Japanese markets to GSP eligible countries.

Country	Population (Million)	Private Consumption - \$ Million -	Gross Domestic Product
U.S.	217	1,210,000	1,681,700
EC-9	259	1,015,516	1,714,327
Japan	114	403,692	697,717

Source: IMF Yearbook 1979, data for calendar year 1977.

To the extent that the United States market is the most attractive in terms of economics and in ease-of-entry under GSP, undesirable trade diversion will be inevitable if the respective GSP programs are not brought into balance. It is for this reason that we strongly endorse the Report's suggestion that the United States intends to consult with other GSP donor countries regarding implementation of the activity. This should be of urgent priority.

III. Importance of Remaining Alert to GSP's Impact on Agriculture.

As between industry and agriculture in the United States, the latter fares less well from the GSP program than does the former. The value of GSP duty-free imports of agricultural products in 1976, 1977, and 1978 amounted to from 20 to 23% of the total value of imports of such products. Comparable percentages for industry products were 11 to 12%, or about half of that for agriculture.

It is important that Congress continue to monitor this program in terms of its impact on agriculture, an inherently import sensitive industry. This sensitivity has long been recognized in connection with the GSP program. Upon submission of the 1974 Trade Act to Congress the President said: ". . . GSP would allow duty-free treatment for a broad range of

manufactured and semi-manufactured products and for a selected list of agricultural and primary products." (emphasis added). The reason for that distinction was that developing countries are generally competitive in developed country markets with respect to most agricultural and primary products.

Close scrutiny of GSP application to agricultural products is particularly important at a time when, as is pointed out below, one of the most important markets for canned peaches have restrictive import policies; namely, the European Economic Community. World trade can not take place in a vacuum and it is particularly important for agricultural producers that a sense of balance exist with respect to the U.S. system of GSP and agricultural import policies of our major trading partners.

PROPOSED GSP LEGISLATION MAY NOT BE
BENEFICIAL TO THE AGRICULTURAL COMMUNITY

Pending the phase-out and eventual elimination of the GSP program altogether, the Board is generally supportive of proposed legislative efforts to modify and improve the present operation of the program. Though we have yet to thoroughly analyze the pending bills, we are deeply concerned that one of the more promising measures, S. 3201, introduced by Senators Heinz and Moynihan, specifically exempts from its beneficial

operation all fresh and processed agricultural products. As pointed out above, domestically-produced agricultural products are being greatly affected by the presently-structured GSP system, and it is naturally our desire to see legislative efforts directed toward ameliorating, and not exacerbating, the situation. Moreover, because S. 3701 utilizes the Standard Industrial Classification numbers rather than the TSUS numbers, we are concerned over the potential administrative morass that could well result from such a cross-referencing of import data. It is our intention during the next Congress to follow all such legislation closely with a view toward modifying any proposals not beneficial to agriculture.

COHERENT TRADE POLICY MANDATES
CLOSER SCRUTINY OF GSP BENEFITS

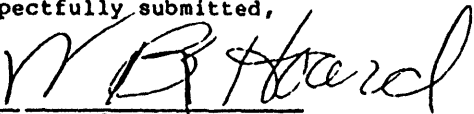
One final point should be made on ensuring that the operation of the GSP system is compatible and consistent with our nation's entire international trade policy. As mentioned above, trade does not occur in a vacuum. When duty-free concessions are being considered for certain imported products from developing countries, equal consideration must be given to any unfair and discriminatory trade practices being engaged in by those countries or our other trading partners with respect to the export of products from the United States. The granting

of such concessions without due regard for those unfair trade practices would send misleading signals to those trading partners and could seriously hamper and possibly negate efforts to negotiate the removal of those unfair trade practices.

For example, the Board is currently reviewing its rights under Section 301 of the Trade Agreements Act because of its concern over the establishment in the European Economic Community of production subsidies for canned peaches. The threat exists not only to third country markets but within the domestic market, since third-country exporters, some of whom are GSP-eligible suppliers, will have to look for alternative markets. In light of this situation and in order to have a consistent and forthright trade policy, the USTR should not, as is currently under review, consider granting GSP concessions on canned fruits.

The Board greatly appreciates having the opportunity to present its viewpoints on the operation of the U.S. Generalized System of Preferences.

Respectfully submitted,


W. R. Hoard
Manager

December 5, 1980

BEFORE THE COMMITTEE ON FINANCE
SUBCOMMITTEE ON INTERNATIONAL TRADE
UNITED STATES SENATE

Hearings To Review The
Operation of the U.S.
Generalized System of Preferences

STATEMENT OF
THE CALIFORNIA AVOCADO COMMISSION

INTRODUCTION

This statement is submitted on behalf of the California Avocado Commission. The California Avocado Commission (the Commission) is organized under the laws of the State of California and represents all avocado growers and marketers within the State of California. California produces approximately 80% of the avocados grown in the United States. The Commission speaks for growers on various matters of concern, including all matters relating to international trade.

The Commission's membership is comprised of approximately 7,200 growers holding a total of approximately 55,000 acres. On an annual basis the approximate f.o.b. value of the California avocado crop is \$100 million.

The Commission greatly welcomes this Subcommittee's review and oversight of the U.S. GSP program at the midway point of its Congressional authorization.

THE GSP PROGRAM SHOULD BE ELIMINATED ENTIRELY

Under Title V of the Trade Act of 1974, the U.S. GSP was authorized by Congress as a temporary, ten-year program. Since the program is designed as a nonreciprocal tariff-preference measure and thus distorts free and open international trading, Congress wisely limited its duration. Any indication that the United States intends to continue granting new GSP benefits beyond the ten-year limit would be violative of the original Congressional intent and would institutionalize an inherently anti-competitive trading system. For this reason, the Commission submits that the U.S. GSP program should be brought to an end.

The U.S. GSP program has now been in operation for five years. Since the time is soon due for all program benefits to expire, the United States should actually be in the process now of phasing out benefits already granted. At the very least, new extensions of GSP benefits should not be provided at this late date as it would be inconsistent with the Congressional intent that this be a temporary program. Indeed,

because it takes avocado trees nearly five years to mature to fruit-bearing status, it would be senseless to consider extending GSP benefits to avocados at this point in the program since it will be terminated before the potentially benefitted avocados are harvested.

This point is underscored by the President in his own report to Congress on the GSP program. In that report, it is stated that: "The temporary nature of GSP tariff preferences...militates against basing long-term planning and decisions to invest in new sectors on the existence of a GSP tariff preference." Ways and Means Committee Print 96-58, 96th Cong., 2d Sess. 1980, p. 63.

The GSP program was originally designed to temporarily help developing countries expand their exports, diversify their economies, spur the process of development and lessen their dependence on external foreign assistance. If the United States does not signal to the trading world that it fully intends to phase out these temporary nonreciprocal tariff preferences, our trading partners will justifiably assume that such preferences have become a permanent ingredient in our nation's trade structure. This will, of course, be inconsistent not only with the Congressional intent of authorizing a temporary import-relief program, but also with

our nation's principal objective in the conduct of international trade; i.e., "a fairer and more open trading system that will benefit U.S. citizens". 24th Annual Report of the President of the United States on the Trade Agreements Program, 1979, p. iii.

PRESIDENT'S REPORT

Pending the phase-out of the GSP program, certain worthwhile modifications should be pursued. In this regard, the "Report of the President on the First Five Years' Operation of the U.S. Generalized System of Preferences" of April 17, 1980 is one of the most comprehensive and rational reports to Congress on this subject that is known to us. The report itself acknowledges both successes and failures of the GSP program, and suggests possible improvements.

In reviewing the status of the GSP program, we urge Congress to consider three points raised in the President's Report: (1) the need to develop a specific "graduation" policy; (2) the importance of making the U.S. program comparable with the system of other countries; and (3) the sensitivity of U.S. agricultural products to any such program.

I. The Development of a Specific "Graduation" Policy.

The inclusion of a "graduation" principle in GSP seems to be universally accepted, however, we do not believe sufficient progress is being made to develop such a policy. Defining certain developing countries as "least developed" implies that some criteria already exists insofar as "graduation" is concerned. However, to the best of our knowledge only a very subjective test is implemented which involves the level of a country's economic development, including factors such as per capita gross national products and living standard.

It should be noted that the ten countries benefiting most greatly from our GSP program account for approximately 83% of total imports. Concentration of this magnitude suggests that some of the less developed countries have now "graduated".

The concept of differential treatment of GSP eligibles has been established. The longer "graduation" criteria remain unspecified, the greater the likelihood that "graduation" will never be realized. This delay will have the effect of defeating the intent and purpose of GSP. It also creates great uncertainty among eligible and non-eligible countries; both of which have difficulty in developing long range export/import

plans without the ability to measure the extent of GSP participation.

II. Failure to Properly Consider Comparability.

The President's Report contains a remark to the effect that all commenting countries concurred that the duty-free treatment of the United States system was preferable to the systems of the European Economic Community and Japan. This provides us with a significant warning that the realization of equitable GSP procedures is imperative. Section 1 of Title V of the Trade Act of 1974 authorizing this preference requires the President to have due regard for comparable GSP actions by other major developed countries. We believe that the U.S. Government has been remiss in this regard, thus creating situations where trade diversion takes place. The following table is illustrative of the relative attractiveness of the United States, European Community and Japanese markets to GSP eligible countries.

Country	Population (Million)	Private Consumption - \$ Million -	Gross Domestic Product
U.S.	217	1,210,000	1,881,700
EC-9	259	1,015,516	1,714,327
Japan	114	403,692	697,717

Source: IMF Yearbook 1979, data for calendar year 1977.

To the extent that the United States market is the most attractive in terms of economics and in ease-of-entry under GSP, undesirable trade diversion will be inevitable if the respective GSP programs are not brought into balance. It is for this reason that we strongly endorse the Report's suggestion that the United States intends to consult with other GSP donor countries regarding implementation of the activity. This should be of urgent priority.

III. Importance of Remaining Alert to GSP's Impact on Agriculture.

As between industry and agriculture in the United States, the latter fares less well from the GSP program than does the former. The value of GSP duty-free imports of agricultural products in 1976, 1977, and 1978 amounted to from 20 to 23% of the total value of imports of such products. Comparable percentages for industry products were 11 to 12%, or about half of that for agriculture.

It is important that Congress continue to monitor this program in terms of its impact on agriculture, an inherently import sensitive industry. This sensitivity has long been recognized in connection with the GSP program. Upon submission of the 1974 Trade Act to Congress the President said: ". . . GSP would allow duty-free treatment for a broad range of

manufactured and semi-manufactured products and for a selected list of agricultural and primary products." (emphasis added). The reason for that distinction was that developing countries are generally competitive in developed country markets with respect to most agricultural and primary products.

Close scrutiny of GSP application to agricultural products is particularly important at a time when, as will be shown below, important markets for agriculture have restrictive import policies. World trade can not take place in a vacuum and it is particularly important for agricultural producers that a sense of balance exist with respect to the U.S. system of GSP and agricultural import policies of our major trading partners.

PROPOSED GSP LEGISLATION MAY NOT BE
BENEFICIAL TO THE AGRICULTURAL COMMUNITY

Pending the phase-out and eventual elimination of the GSP program altogether, the Commission is generally supportive of proposed legislative efforts to modify and improve the present operation of the program. Though we have yet to thoroughly analyze the pending bills, we are deeply concerned that one of the more promising measures, S. 3201, introduced by Senators Heinz and Moynihan, specifically exempts from its beneficial operation all fresh and processed agricultural

products. As pointed out above, domestically-produced agricultural products are being greatly affected by the presently-structured GSP system, and it is naturally our desire to see legislative efforts directed toward ameliorating, and not exacerbating, the situation. Moreover, because S. 3201 utilizes the Standard Industrial Classification numbers rather than the TSUS numbers, we are concerned over the potential administrative morass that could well result from such a cross-referencing of import data. It is our intention during the next Congress to follow all such legislation closely with a view toward modifying any proposals not beneficial to agriculture.

COHERENT TRADE POLICY MANDATES

CLOSER SCRUTINY OF GSP BENEFITS

One final point should be made on ensuring that the operation of the GSP system is compatible and consistent with our nation's entire international trade policy. As mentioned above, trade does not occur in a vacuum. When duty-free concessions are being considered for certain imported products from developing countries, equal consideration must be given to any unfair and discriminatory trade practices being engaged in by those countries or our other trading partners with respect

to the export of similar products from the United States . The granting of such concessions without due regard for those unfair trade practices would send misleading signals to those trading partners and could seriously hamper and possibly negate efforts to negotiate the removal of those unfair trade practices.

For example, Mexico, a GSP-eligible country, and the world's largest producer of avocados, prohibits the entry of fresh avocados from the United States. The principal barrier used by Mexico is a refusal to grant an import license. In addition, Mexico has high duties and an official price system to further stop imports of U.S. avocados. The continual granting of GSP benefits to other Mexican products in light of these unfair trade practices makes a mockery of our overall international trade policy and should be carefully reviewed.

Respectfully submitted,



Ralph M. Pinkerton
President

December 5, 1980

BEFORE THE COMMITTEE ON FINANCE
SUBCOMMITTEE ON INTERNATIONAL TRADE
UNITED STATES SENATE

Hearings On International Trade Strategy
With Industrialized Countries

STATEMENT OF
CALIFORNIA ALMOND GROWERS EXCHANGE

INTRODUCTION

This statement is submitted on behalf of the California Almond Growers Exchange. The Exchange is an agricultural cooperative headquartered in Sacramento, California. It has nearly 5,000 grower members which represent approximately 72% of the producers of almonds in California.

The Exchange receives, processes, packs and markets almonds for its members; its almond supply is obtained exclusively from its members. The Exchange sells the almonds of its members throughout the United States and in nearly every country of the world.

There are currently 365,000 bearing and non-bearing acres of almond trees in California, making almonds the largest tree crop in the State. A projected 100,000 additional acres are to be planted. It is anticipated that the total Fiscal Year 1980 sales of almonds will amount to approximately \$700 million.

Exports are extremely important to the U.S. almond industry as the United States is the world's largest producer of almonds. Approximately 65% of total U.S. almond production for FY 1980 will be exported. This represents 70% of the total world almond supply and amounts to approximately \$1/2 billion of exports.

BACKGROUND

This statement is being submitted in conjunction with hearings held on December 9 before the Subcommittee on International Trade of the Senate Finance Committee. Those hearings dealt with the trade and investment policies of industrialized countries and the relation of those policies to the formulation of an international trade strategy for the United States.

The Exchange welcomes this review and this opportunity to make known to the Subcommittee its views on our nation's international trade strategy with industrialized nations. As will be explained below, our industry is often confronted with what seems to be a lack of coherency and consistency in our trade policy. Hence it is our hope that these hearings will result in recommendations that will prompt changes in that

policy that will ensure a coherent, consistent and forthright international trade strategy.

As a preliminary matter, it should be noted by the Subcommittee that trade in agricultural products has been and will, it is hoped, continue to be a mainstay in our trade balance with developed countries. The following table makes that clear:

U.S. & THE DEVELOPED COUNTRIES

Trade Balance (in \$ million)

<u>Year</u>	<u>Total</u>	<u>Non-Agricultural</u>	<u>Agricultural</u>
1974	+ 2,955	- 6,782	+ 9,737
1975	+ 8,397	- 1,263	+ 9,660
1976	+ 2,904	- 7,610	+10,514
1977	- 5,737	-14,825	+11,088
1978	-14,505	-26,376	+11,872
1979	- 2,013	-14,911	+12,898

Because of the importance of this agricultural trade surplus to our nation's overall balance of payments, it is doubly important that our government pursue policies that serve to encourage this trade, and more importantly, do not serve to discourage it. Consistent policies, wherein our trade rights are aggressively pursued, will do much to ensure that the success story of the export of agricultural products such as ours will endure.

This need to aggressively pursue our trade rights is particularly true when dealing with industrialized countries. Whatever problems our nation may have in asserting its rights with LDCs and NICs, the League believes that, when dealing with advanced, industrialized countries--such as the European Economic Community and Japan--there is absolutely no excuse for not asserting our trade rights in the most aggressive manner possible.

European Economic Community

Approximately one-half of the U.S. exports of almonds, or \$1/4 billion, will go to the EEC this Fiscal Year, making almonds one of our leading export items to the EEC. The U.S. position in the EEC market, however, is in jeopardy because of a potentially large expansion in Spanish production and Spain's entry in the EEC. Although Italy, the only current EEC member which produces almonds, used to be the world's largest producer of almonds, the Italian industry has seriously declined to the point where it now has no viable industry to protect. Spain has become the U.S. almond industry's largest competitor.

Spanish almonds are already in a favorable competitive position in Europe as a result of Spain's proximity to EEC markets. Accession will enhance their competitive position

through the exemption from the 7% common external tariff now levied against all almonds imported into the EEC. Moreover, once in the EEC, Spain will be in a position to push for additional protective or support measures.

Our negotiators have been aware of our concerns with regard to the EEC's duty for over 7 years. Elimination of this duty was the highest priority for the U.S. almond industry during the Multilateral Trade Negotiations. The Exchange has been a leader in opening up world markets and increasing exports of almonds, thereby contributing to the U.S. balance of payments. Our government and the Congress have repeatedly indicated their support for increasing opportunities for U.S. agricultural exports. An important U.S. export commodity faces serious impairment of its largest market if the EEC's 7% common external tariff on almonds is not eliminated prior to Spanish accession. If one of our goals in the area of trade policy is to enhance opportunities for U.S. exports, then the U.S. government must work closely with industry leaders such as ourselves in effectuating an aggressive and coherent trade policy which will aid our balance of payments.

We just recently became aware through trade channels of another development within the EEC that gives us great concern. The EEC currently operates a system of production

subsidies on various agricultural products, not including almonds. This program was implemented in 1978. The methodology used in calculating the subsidies is based on an EEC guaranteed minimum raw product price plus a calculated cost of processing, minus the average free border price of the comparable third country product. It is believed that the subsidy not only provides a stimulus leading to EEC self-sufficiency (which is one of the announced objectives of the policy), but it will also lead to over-production, in turn resulting in exportation with subsidization if necessary.

While the production subsidy is not now applied to almonds, there are unofficial indications within the EEC that an effort may be made to extend it to our product. This is the type of issue that requires constant monitoring by those agencies of our government involved in trade policy. In fact, we should be telling the Europeans at this very moment that any attempt to apply this policy to almonds will be met by aggressive retaliatory action.

CANADA

Prior to 1975 roasted almonds entered Canada from the United States on a duty free basis, which was sensible in light of the fact that no almonds are produced in Canada. However,

in 1975, without any action by Parliament, Canadian authorities began classifying roasted almonds under a different tariff item which resulted in the application of a 17.5% duty.

The Exchange challenged this reclassification before the Canadian Tariff Board and the Board ruled after formal hearings that the reclassification was incorrect and roasted almonds should enter Canada on a duty free basis.

Shortly after this ruling by the Board in 1979 the Minister of Finance in Canada proposed a new duty item which would create a 10% duty for roasted almonds. The Exchange believes that this most recent action constitutes a nullification and impairment of United States rights under the General Agreement on Tariffs and Trade (GATT). We have been in contact with appropriate government officials to request that Canada reconsider this arbitrary classification and the Exchange intends to do everything possible to reverse this action. However, it serves as a good example of how damaging trade policies of other industrialized countries can be to legitimate United States trade interests.

CONCLUSION

Whenever our trading rights with our industrialized trading partners are not aggressively pursued, our nation is placed at

a distinct disadvantage in the world's market place. Too often, as pointed out in the examples above, the United States is being unfairly discriminated against in international trading relationships through tariff and non-tariff barriers erected by those trading partners. In order to insure that we have a consistent and forthright trading posture, and in order to remain competitive, our trading rights in the international arena must not only be protected but also must be exercised aggressively by our negotiators.

Respectfully submitted,


Steven W. Easter
Vice President

BEFORE THE COMMITTEE ON FINANCE
SUBCOMMITTEE ON INTERNATIONAL TRADE
UNITED STATES SENATE

Hearings On International Trade Strategy
With Industrialized Countries

STATEMENT OF
CALIFORNIA-ARIZONA CITRUS LEAGUE

INTRODUCTION

This statement is submitted on behalf of the California-Arizona Citrus League (the League). The League is a voluntary non-profit trade association composed of marketers of California-Arizona citrus fruits. Members are farmer cooperatives and independent shippers which represent over ninety percent of the 10,500 citrus fruit growers in Arizona and California. These growers produce oranges, lemons, grapefruit, tangerines and limes. This fruit is marketed in both fresh and processed forms.

The League speaks on behalf of the California-Arizona citrus fruit industry on matters of general concern such as legislative, foreign trade and other similar topics. Representatives of the League have devoted much time and effort to the promotion of exports and have concerned themselves with international trade problems since early in the 1920's.

BACKGROUND

The League is pleased to have the opportunity to participate in this investigation of trade and investment policies of other industrialized countries. The International Trade Subcommittee has previously focused on trade policies with other categories of countries, most recently the so-called NICs (Newly Industrializing Countries). We believe it is important and appropriate to carefully focus on trade policies of other industrialized countries, as our most major trade problems appear to occur with such countries.

The trade problems and disputes created by the policies of other industrialized countries are particularly frustrating since for the most part the United States has friendly political relations with these countries. However, rather than this factor being a positive influence in resolving trade disputes, it is our experience that it results in just the opposite effect.

For the sake of argument it may be true that aggressive and strict enforcement of U.S. rights cannot always be implemented with respect to some of the least developed and developing countries. However, to the extent such impediments exist with these countries, they certainly should not exist at all with regard to the more developed and industrialized countries.

However, it is our experience that aggressive and expeditious enforcement of U.S. rights against the industrialized countries is a most difficult task. In many instances we believe that diplomatic and political considerations dominate trade considerations. What is needed is a more balanced approach and, most importantly, a framework and atmosphere whereby activities of the government to protect U.S. interests, either through the enforcement of United States Rights Section of the Trade Agreements Act, or through the General Agreement on Tariffs and Trade, is not interpreted as a hostile and aggressive act.

Congress deliberated long and hard in connection with the Trade Agreements Act of 1979. Title III of the Act covers enforcement of United States rights under trade agreements and responses to certain foreign trade practices. We fear that effective utilization of Title III is threatened insofar as its use against other industrialized countries is concerned because of a preoccupation with the diplomatic and political considerations.

Two cases in point are the League's current trade difficulties with the European Economic Community and with Japan.

EUROPEAN ECONOMIC COMMUNITY

The European Economic Community (EEC) is the largest importing region in the world for fresh and processed citrus products. In 1969, the EEC commenced a system of granting tariff reductions on imports of citrus from certain Mediterranean nations. These tariff preferences have, over the years, been extended to now include nine such countries, including the two largest supplying countries, Spain and Israel.

Because these preferential duties severely restrict the importation of citrus and citrus products from the United States and discriminate against U.S. trade with the EEC in such products, and because these preferences are contrary to the EEC's obligations under Article I of the General Agreement on Tariffs and Trade (GATT), the U.S. citrus industry in 1976 filed a Section 301 complaint with the Office of the United States Trade Representative on the basis that these preferences constituted unjustifiable and unreasonable discrimination against U.S. commerce. As bilateral consultations did not result in corrective action, the President pursued a solution under GATT, and in October 1980, GATT consultations were convened in Geneva under Article XXII. The results of those Article XXII consultations are pending at this time. Since

these illegal tariffs have now been in existence for over ten years, this is a prime example of how our nation has been reluctant to aggressively pursue its rights.

JAPAN

Over the past five years (1975-1979) the United States has had an average negative balance of trade of \$17.3 billion. Generally this is attributed largely to the recent U.S. need for imports of oil, and that the big world gainers have been the OPEC countries. But, one country, not an oil producer, accounts for 43% of our negative trade balance, that country being Japan. A substantial part of the negative balance results from Japanese import restrictions (quotas and exorbitant duties) on agricultural commodities. These quotas were initially imposed, years ago, for legitimate "balance of payment" reasons pursuant to GATT provisions. As such justification no longer exists, U.S. authorities need to move aggressively to secure their removal.

One of the major impediments to creating a healthy trading relationship with Japan is the existence of excessive duties on, and import quotas for, fresh oranges and certain citrus products. The Japanese duties on fresh oranges are 40% from December through May and 20% from June through November. These

duties, among the highest in any commercial orange-producing country in the world, effectively preclude California and Arizona navel orange growers from participating in the Japanese market because of the timing of their harvest.

Japan also maintains an import quota on fresh oranges. Although the quota was recently increased as a result of the Multilateral Trade Negotiations, it is still extremely low and is equivalent to less than 3% of the Japanese Mikan (tangerine) production. Moreover, because this import quota is illegal under GATT provisions, the U.S. government has taken the position on numerous occasions that it should be removed entirely. Nonetheless, both the quotas and the high duties remain.

CONCLUSION

Whenever our trading rights with our industrialized trading partners are not aggressively pursued, our nation is placed at a distinct disadvantage in the world's market place. Too often, as pointed out in the examples above, the United States is being unfairly discriminated against in international trading relationships through tariff and non-tariff barriers erected by those trading partners. In order to insure that we have a consistent and forthright trading posture, and in order

to remain competitive, our trading rights in the international arena must not only be protected but also must be exercised aggressively by our negotiators.

Respectfully submitted,


William K. Quarles
President

BEFORE THE COMMITTEE ON FINANCE
SUBCOMMITTEE ON INTERNATIONAL TRADE
UNITED STATES SENATE

Hearings To Review The
Operation of the U.S.
Generalized System of Preferences

STATEMENT OF
THE IMPERIAL VALLEY ASPARAGUS
GROWERS ASSOCIATION

INTRODUCTION

This statement is submitted on behalf of the Imperial Valley Asparagus Growers Association (The Association). The Association represents the asparagus growers located in California's Imperial Valley. Asparagus produced in this area is grown primarily for the fresh market. During the early months of January, February and March of each year, approximately 95 percent of the domestic production of fresh asparagus originates in this area. Because the Imperial Valley is isolated from other asparagus-producing regions of the United States, and because it is a sole domestic supplier of 95 percent of the fresh asparagus produced in the United States during the first three months of the calendar year, this industry feels its statement is entitled to significant consideration.

The Association greatly welcomes this Subcommittee's review and oversight of the U.S. GSP program at the midway point of its Congressional authorization. Underscoring our very real concern over the direction and administration of the GSP program is the fact that, numerous times, most recently in the past three months, the Association has appeared before and presented written briefs to both the United States Trade Representative and the International Trade Commission opposing those bodies' consideration of the expansion of the GSP list to include items of concern to our industry.

THE GSP PROGRAM SHOULD BE ELIMINATED ENTIRELY

Under Title V of the Trade Act of 1974, the U.S. GSP was authorized by Congress as a temporary, ten-year program. Since the program is designed as a nonreciprocal tariff-preference measure and thus distorts free and open international trading, Congress wisely limited its duration. Any indication that the United States intends to continue granting new GSP benefits beyond the ten-year limit would be violative of the original Congressional intent and would institutionalize an inherently anti-competitive trading system. For this reason, the Association submits that the U.S. GSP program should be brought to an end.

The U.S. GSP program has now been in operation for five years. Since the time is soon due for all program benefits to expire, the United States should actually be in the process now of phasing out benefits already granted. At the very least, new extensions of GSP benefits should not be provided at this late date as it would be inconsistent with the Congressional intent that this be a temporary program.

This point is underscored by the President in his own report to Congress on the GSP program. In that report, it is stated that: "The temporary nature of GSP tariff preferences...militates against basing long-term planning and decisions to invest in new sectors on the existence of a GSP tariff preference." Ways and Means Committee Print 96-58, 96th Cong., 2d Sess. 1980, p. 63.

The GSP program was originally designed to temporarily help developing countries expand their exports, diversify their economies, spur the process of development and lessen their dependence on external foreign assistance. If the United States does not signal to the trading world that it fully intends to phase out these temporary nonreciprocal tariff preferences, our trading partners will justifiably assume that such preferences have become a permanent ingredient in our nation's trade structure. This will, of course, be

inconsistent not only with the Congressional intent of authorizing a temporary import-relief program, but also with our nation's principal objective in the conduct of international trade; i.e., "a fairer and more open trading system that will benefit U.S. citizens". 24th Annual Report of the President of the United States on the Trade Agreements Program, 1979, p. iii.

PRESIDENT'S REPORT

Pending the phase-out of the GSP program, certain worthwhile modifications should be pursued. In this regard, the "Report of the President on the First Five Years' Operation of the U.S. Generalized System of Preferences" of April 17, 1980 is one of the most comprehensive and rational reports to Congress on this subject that is known to us. The report itself acknowledges both successes and failures of the GSP program, and suggests possible improvements.

In reviewing the status of the GSP program, we urge Congress to consider three points raised in the President's Report: (1) the need to develop a specific "graduation" policy; (2) the importance of making the U.S. program comparable with the system of other countries; and (3) the sensitivity of U.S. agricultural products to any such program.

I. The Development of a Specific "Graduation" Policy.

The inclusion of a "graduation" principle in GSP seems to be universally accepted, however, we do not believe sufficient progress is being made to develop such a policy. Defining certain developing countries as "least developed" implies that some criteria already exists insofar as "graduation" is concerned. However, to the best of our knowledge only a very subjective test is implemented which involves the level of a country's economic development, including factors such as per capita gross national products and living standard.

It should be noted that the ten countries benefiting most greatly from our GSP program account for approximately 83% of total imports. Concentration of this magnitude suggests that some of the less developed countries have now "graduated".

The concept of differential treatment of GSP eligibles has been established. The longer that "graduation" criteria remain unspecified, the greater the likelihood that "graduation" will never be realized. This delay will have the effect of defeating the intent and purpose of GSP. It also creates great uncertainty among eligible and non-eligible countries, both of which have difficulty in developing long

range export/import plans without the ability to measure the extent of GSP participation.

II. Failure to Properly Consider Comparability.

The President's Report contains a remark to the effect that all commenting countries concurred that the duty-free treatment of the United States system was preferable to the systems of the European Economic Community and Japan. This provides us with a significant warning that the realization of equitable GSP procedures is imperative. Section 1 of Title 5 of the Trade Act of 1974 authorizing this preference requires the President to have due regard for comparable GSP actions by other major developed countries. We believe that the U.S. Government has been remiss in this regard, thus creating situations where trade diversion takes place. The following table is illustrative of the relative attractiveness of the United States, European Community and Japanese markets to GSP eligible countries.

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To the extent that the United States market is the most attractive in terms of economics and in ease-of-entry under GSP, undesirable trade diversion will be inevitable if the respective GSP programs are not brought into balance. It is for this reason that we strongly endorse the Report's suggestion that the United States intends to consult with other GSP donor countries regarding implementation of the activity. This should be of urgent priority.

III. Importance of Remaining Alert to GSP's Impact on Agriculture.

As between industry and agriculture in the United States, the latter fares less well from the GSP program than does the former. The value of GSP duty-free imports of agricultural products in 1976, 1977, and 1978 amounted to from 20 to 23% of the total value of imports of such products. Comparable percentages for industry products were 11 to 12%, or about half of that for agriculture.

It is important that Congress continue to monitor this program in terms of its impact on agriculture, an inherently import sensitive industry. This sensitivity has long been recognized in connection with the GSP program. Upon submission of the 1974 Trade Act to Congress the President said: ". . . GSP would allow duty-free treatment for a broad range of

manufactured and semi-manufactured products and for a selected list of agricultural and primary products." (emphasis added). The reason for that distinction was that developing countries are generally competitive in developed country markets with respect to most agricultural and primary products.

PROPOSED GSP LEGISLATION MAY NOT BE
BENEFICIAL TO THE AGRICULTURAL COMMUNITY

Pending the phase-out and eventual elimination of the GSP program altogether, the League is generally supportive of proposed legislative efforts to modify and improve the present operation of the program. Though we have yet to thoroughly analyze the pending bills, we are deeply concerned that one of the more promising measures, S. 3201, introduced by Senators Heinz and Moynihan, specifically exempts from its beneficial operation all fresh and processed agricultural products. As pointed out above, domestically-produced agricultural products are being greatly affected by the presently-structured GSP system, and it is naturally our desire to see legislative efforts directed toward ameliorating, and not exacerbating, the situation. Moreover, because S. 3201 utilizes the Standard Industrial Classification numbers rather than the TSUS numbers, we are concerned over the potential administrative morass that could well result from such a cross-referencing of import

data. It is our intention during the next Congress to follow all such legislation closely with a view toward modifying any proposals not beneficial to agriculture.

COHERENT TRADE POLICY MANDATES CLOSER
SCRUTINY OF GSP BENEFITS

One final point should be made on ensuring that the operation of the GSP system is compatible and consistent with our nation's entire international trade policy. Naturally, it is understood that trade does not occur in a vacuum. When duty-free concessions are being considered for certain imported products from developing countries, equal consideration must be given to any unfair and discriminatory trade practices being engaged in by those countries or our other trading partners with respect to the export of similar products from the United States. The granting of such concessions without due regard for those unfair trade practices would send misleading signals to those trading partners and could seriously hamper and possibly negate efforts to negotiate the removal of those unfair trade practices.

For example, Mexico, a beneficiary developing country under our GSP, has engaged in numerous instances of unfair trade practices, both generally and with specific regard to asparagus. Examples include the imposition of various import

licenses to importers of U.S. products which effectively serve to preclude trade in those items and the utilization of an official pricing system that serves to discriminate against U.S. products. Continually granting GSP benefits to Mexico in no way serves to encourage that country to modify these unfair trade practices.

The Association greatly appreciates having this opportunity to present its viewpoints on the operation of the U.S. Generalized System of Preferences.

Respectfully submitted,


Donald E. Brock
President

December 5, 1980



ECONOMIC CONSULTING SERVICES INC.

STATEMENT OF STANLEY NEHMER,
PRESIDENT, ECONOMIC CONSULTING SERVICES INC.,
WASHINGTON, D.C.,
TO THE INTERNATIONAL TRADE SUBCOMMITTEE,
COMMITTEE ON FINANCE, UNITED STATES SENATE
ON THE GENERALIZED SYSTEM OF PREFERENCES
DECEMBER 5, 1980

In order to assist the Subcommittee on International Trade in its review of the President's Report to the Congress on the First Five Years' Operation of the U.S. Generalized System of Preferences (GSP), and of proposals to modify the program, I would like to submit for the record a number of observations concerning the operation and administration of the GSP program since it was enacted in the Trade Act of 1974.

Economic Consulting Services Inc. -- ECS -- is a professional firm specializing in international trade and applied economic and business services. Among clients of ECS are major financial institutions, industry and trade associations, labor unions, and law firms, as well as individual firms in most sectors of business and industry in the United States. This statement reflects the experiences many of these clients have had in dealing with the Generalized System of Preferences. In addition, certain recommendations are offered for consideration by the Executive Branch and the Congress to improve the workings of the present GSP program.

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At the outset let me make it clear that I support the concept of the Generalized System of Preferences; I am not recommending that it be dismantled. I strongly believe, however, that certain revisions in the GSP program are needed in order to check the adverse impact it has been having on American jobs and firms. Clearly, there are some serious issues that need to be addressed now for the GSP program to be viable -- and publicly supportable -- in the future.

I. The Issue Of Graduation

Considerable attention is given in the President's GSP report to the question of "graduation." It has long been recognized that, as circumstances change, any special treatment made generally available to developing countries would have to be phased out for individual LDCs as they "graduate," or become more developed. This principle is the keystone around which the GSP program was originally constructed. It is a matter of concern to management and labor in any American industry concerned with the impact of imports on its economic well-being.

The Congress eliminated certain countries from coverage under the GSP program in Section 502(b) of the Trade Act of 1974. At the same time, the Congress established in Section 502(c) certain criteria for designation of beneficiary developing countries. These criteria include "the level of

economic development of such country, including its per capita gross national product, the living standards of its inhabitants, and any other economic factors which he [the President] deems appropriate; and the extent to which such country has assured the United States it will provide equitable and reasonable access to the markets and basic commodity resources of such country."

It surely is not in the longer-term interest of U.S. foreign and economic policies to perpetuate a "two-tier trading system" in which the majority of the world's trading nations are permanently classed as LDCs. The global economy is after all a dynamic system, and relative shifts in economic strength among countries will have to be accommodated sooner or later -- especially since an increasingly elaborate network of special trade arrangements, like the GSP, will only intensify the costs of delayed adjustment.

Similarly, a number of rapidly-growing developing countries are now crossing the transition-line to developed status. In fact, certain advanced "developing" countries like Singapore and Hong Kong have now actually overtaken some of the member-states of the European Economic Community in terms of per capita GNP, and others are on the verge of doing so.

When one reads in the President's report that 68 percent of all GSP duty-free imports in 1978 came from five countries and 90 percent came from 15 countries, one would have to conclude that this concentration of benefits among a

relatively small number of countries cannot really be considered an indication of the "success" of the program. I think attention might well focus on whether at least the top five beneficiaries -- Taiwan, Korea, Hong Kong, Brazil, and Mexico -- have now graduated to a stage of economic development where, having clearly established their competitive position in the U.S. market, they no longer need the benefits of GSP duty-free treatment of their exports to the United States.

Each of the top five countries has experienced significant increases in per capita income since the pre-GSP period. In 1978 Hong Kong enjoyed a per capita income of \$3,076, a 67 percent increase from the 1975 level. Korea's per capita income rose by 97 percent in this period, Taiwan's by 54 percent, Brazil's by 36 percent, and Mexico's by 13 percent. Moreover, Hong Kong enjoyed a trade surplus with the United States of almost \$2 billion in 1979, while Taiwan's trade surplus with the United States was in excess of \$2.6 billion. (U.S.-Korean trade was about in balance; only Mexico and Brazil continued to have deficits in their trade with the United States.)

Continuing to accord GSP treatment to these top five countries should certainly be scrutinized carefully and probably can no longer be justified by the terms of the statute. It is hurting those lesser developed countries which legitimately can use the help of the GSP program and for which the program was intended. It is also hurting

those domestic industries whose firms and workers are shouldering the burdens of according GSP duty-free treatment on products from such countries.

In the current policy environment, political inertia appears to weigh heavily against removing countries from the eligibility list. Many beneficiary countries apparently would regard such unilateral action on the part of the U.S. as some sort of hostile or punitive measure; and many officials within the U.S. Executive Branch, fearing complications or troublesome repercussions for other areas of our foreign relations, may be quite reluctant to take such a step.

Allowing the continuation of GSP benefits by default to advanced developing countries is certainly not in the interests of U.S. producers, workers or consumers, for granting a GSP "bonus" to foreign producers that are already competitive cannot be expected to yield net benefits for the U.S. economy over the longer term. Furthermore, the great majority of LDCs -- whose competitive positions in world trade are supposed to be assisted by the GSP program -- will continue to be held back so long as eight or ten of the most advanced "developing" countries take the lion's share of the GSP benefits, as they have for the past several years.

For these reasons, it is imperative that action be taken to remove certain countries immediately from eligibility for GSP treatment, notwithstanding any short-term, bilateral complications that might be involved. Failure to take such

action now would be perceived abroad as a tacit recognition of the permanence and "inviolability" of GSP benefits once they are accorded -- and thus would make any future effort to adapt U.S. policies to an ever-changing competitive environment in world trade extremely difficult if not impossible.

We should consider what would have happened, for example, if the GSP system had been in place in 1950, when Japan was generally regarded as a developing country. At what point during the past 30 years would it have been "convenient" to remove Japan from the eligibility list? What would have been the economic and political costs, domestically and internationally, of delaying such action?

II. The Issue Of Import-Sensitive Products

Perhaps one of the most controversial features of the GSP program involves the question of what is an "import-sensitive product" in the context of the GSP program. The Trade Act of 1974 and its legislative history give us some guidance as to what is meant by "import sensitive".

Section 501 of the Trade Act of 1974 provides that in according duty-free treatment for any eligible article, the President should consider "the anticipated impact of such action on United States producers of like or directly competitive products." GSP is intended to enable developing countries to gain access in the United States market they

would otherwise not have. The Congress never intended that developing countries which have already successfully penetrated the U.S. market be given the added advantage of duty-free treatment for such products. Furthermore, it is my conclusion that the Congress, by referring to "anticipated impact," envisioned that the threat or likelihood of adverse impact on domestic producers would be taken into consideration.

The Committee on Finance, in its report on the Trade Act of 1974 (page 225), said that "sensitive articles could include those being injured as a result of dumping and those which have traditionally been reserved from trade negotiations." Section 503(c)(1) identified certain articles as import sensitive when it listed textile and apparel articles subject to textile agreements, watches, and nonrubber footwear. This designation was made with no reservation as to the need to make a further determination as to which of these articles are import sensitive, as is the case with other products listed in the same section of the statute -- namely electronic, steel, and glass products. Unfortunately, the list of specific import-sensitive products does not include others that may be directly competitive with those so listed. An example would be textile and apparel products made from fibers other than those covered by international textile agreements, such as silk and vegetable fiber products. In such cases, these products

may well be directly competitive with the products specifically excluded by the statute.

The Executive Branch seldom deletes articles from the preference list because of import sensitivity. Many more products have been determined not to be import sensitive and have been added to the preference list than have been dropped from the GSP program. If one were to update Table 2.1 in the President's report, one would find that since the GSP program began, 132 products have been added to the preference list while only 20 have been removed from the list. The conclusion is very clear: once a product is on the GSP list, it is extremely difficult to have it removed subsequently.

For example, in one case involving leather wearing apparel, it took three years for the domestic industry to convince the Executive Branch to remove this item from the preference list even though import penetration was high -- about 50 percent -- and growing, while domestic production and employment were declining. There is also a case involving eyeglass frames, in which imports from developing countries have been growing significantly, successfully penetrating the U.S. market, while domestic production and employment have been stagnant at best. This industry has tried several times to secure the removal of this item from GSP eligibility, without success to date.

Obviously the question of import sensitivity is creating much uncertainty in the GSP review process. As presently

structured, the system works in such a way that GSP benefits are extended as a matter of course to eligible LDCs, within competitive-need limitations for specific products, so long as those products are not considered "import sensitive." Clearly, a definition of this term in the context of GSP cannot be as restrictive as that which is involved in an "escape clause" context. The latter entails the highest threshold of import-related injury in the U.S. trade statutes today, because it involves actions which temporarily set aside trade concessions to which the United States is committed through GATT bindings. Tariff preferences for LDC imports under the GSP scheme, in contrast, are not permanent, bound concessions, nor are they obligations on the part of the United States -- and U.S. spokesmen went to great lengths to underscore this point during the MTN.

Despite this fundamental distinction, the trend so far has been toward a high injury-threshold in practice: the record shows that since the GSP program began, more than six times as many products have been added as have been removed from the preference list on grounds of import sensitivity. What this pattern means is that the Executive Branch, by its actions, is treating GSP benefits as if they were the internationally-bound concessions that the Congress never intended in authorizing the U.S. GSP program. Administrative practice of this sort has the effect of establishing a de facto "obligation" within the international trading community of the GATT, and the expectations

of our trading partners will become increasingly binding with the passage of time.

If it is not the policy of the United States to allow its GSP benefits to be perceived internationally as de facto tariff obligations, a clear change will have to occur in the way those benefits are treated by the Executive Branch with regard to import sensitivity. Considering the numerous recent GSP cases in which import penetration by LDCs is shown to be high and growing while domestic production is stagnant at best, it would seem that the prevailing pattern of decision-making regarding sensitivity of GSP imports ought to be turned 180 degrees around; at the very least, the process should be guided by explicit and commonly-understood definitions and criteria.

For such decisions to reflect the balance of domestic interests -- including consumer-welfare and anti-inflationary arguments for the importation of products at competitive prices -- the fundamental rationale in GSP cases ought to be as follows: since the bound tariff reductions undertaken by the U.S. in successive rounds of trade negotiations over the past 30 years have resulted in a tariff schedule that now is as low as it can or should be for any given product, further reductions (i.e., for the sake of giving LDC industries a competitive edge) can be accommodated only to the extent the products concerned are not import-sensitive in a very broad sense. The presumption therefore ought to be that most products which currently are

at issue in GSP proceedings are prima facie import-sensitive -- otherwise, U.S. negotiators would have been able to reduce duties on those products to minimum levels or to zero, during the MTN or previously.

III. Procedural Issues

I believe several comments are in order on certain procedural questions with regard to the GSP program.

First, there have been instances where the Executive Branch has used the Tariff Schedules in a manner not intended by the Congress in order to produce a desired result. For example, the normal practice is to use five-digit items in the Tariff Schedules in the consideration of petitions for removal of or additions to items on the preference list. Indeed the Senate Finance Committee in its report on the 1974 Trade Act said on page 225:

The term "article" would in general refer to the five-digit tariff item numbers of the Tariff Schedules of the United States. Exceptions may be made to this rule if necessary to insure that an article is a coherent product category.

The Mexican Government had petitioned to put unwrought lead (TSUS 624.03) on the preference list. This item consists of two 7-digit numbers, one for unalloyed lead and one for alloyed lead. The Executive Branch called the Mexican Government's attention to the fact that this five-digit item would not be eligible for GSP treatment because Mexican exports to the U.S. of the whole item were well above the

competitive need ceiling. The Mexican request was then narrowed to the seven-digit alloyed lead item. Certainly unwrought lead is "a coherent product category," but nevertheless there is presently under review the possibility of adding lead alloys, the seven-digit item, to the preference list.

Another approach used recently was to subdivide one five-digit item into several so that the competitive need limitation would not be triggered. This was done recently with regard to TSUS item 740.10, gold necklaces and neck chains, which was subdivided into five new TSUS items corresponding to the original seven-digit items under the original five-digit item. This change was made effective March 31, 1981 since imports in 1979 of the original five-digit TSUS item were not quite large enough to be triggered by the competitive need limitation used in the 1980 review.

A second procedural issue involves the competitive need trigger itself. The original \$25 million level provided for in Section 504(c)(1) of the 1974 Trade Act is now \$42 million, by virtue of the provision tied to growth in the gross national product in relation to that of 1974. The current level is a full two-thirds higher than the original one. The time has come not only to stop this annual increase in the competitive need trigger, but perhaps even to begin to reverse the process.

Third, a serious procedural deficiency exists under the program in that there are no published evaluations or

reports after the completion of each case. In some cases, petitioners have received letters which provided a sketchy outline of the findings of the Trade Policy Staff Committee (TPSC). In others, petitioners may be informally advised of certain aspects that were decisive in the Committee's consideration -- but given the informal character of such communications, there is no guarantee that these points will be regarded as germane in future proceedings. For most cases, the outcome is limited to a brief notice in the Federal Register (which will now appear, generally, by the last day of March following the hearing, whether or not an article is added to or deleted from the preference list).

Given the volume of work before the TPSC, of course, it cannot realistically be expected that reporting responsibilities can be as elaborate as those associated with legal proceedings or unfair-trade practices. However, the present arbitrary procedure is inconsistent with the principles of orderly and equitable management of international trade problems affecting American workers and firms.

In fact, the nature of the domestic GSP review process is fairly comparable to that of the international dispute-management process within the GATT, through which different trading entities seek to resolve problems before they emerge as serious disputes. During the MTN, U.S. negotiators pressed strenuously for rules to require a full, published report on the findings of any GATT dispute-settlement panel,

including an outline of the rationale employed and any relevant factors that were considered by the panel. The U.S. negotiators argued that such a requirement would promote effective, predictable management of trade-related problems, by the gradual accumulation of a body of "case law" (even though no binding precedents would be involved) and by reducing the possibilities of arbitrary or capricious adjudication by the reviewing panels. It does not seem reasonable that the procedural safeguards which the U.S. Government has sought to ensure for itself, in an international context, should be denied members of the U.S. private sector in a domestic context.

Fourth, many cases involve what I would call "double jeopardy" situations. Not only is a case heard by a subcommittee of the Trade Policy Staff Committee, but often a case is subsequently referred to the International Trade Commission if the first group finds it does not have sufficient information on which to make a recommendation. I call this "double jeopardy" because there are two sets of hearings with double expenditure of time, effort, and money by a petitioner. This can be a real burden to many small firms. It should be noted, moreover, that the ITC's reports in such cases are not made public since they are considered advisory in nature.

Rather than forcing petitioners to undergo two complete sets of separate hearings, it would be more efficient to attempt seriously to resolve most cases, if at all possible,

at the TPSC level. This might be achieved by soliciting additional information from the parties involved, and by drawing upon the staff resources of various agencies concerned with GSP issues.

Finally, I must raise an important point about GSP which is not strictly procedural but which is undermining the effectiveness of the Subsidies Code negotiated during the MTN. The principal advantage which foreign countries derive from joining that Code is the requirement for an injury test in any countervailing duty investigations involving signatory countries' exports to the U.S. However, because the Trade Act of 1974 requires an injury test in any case involving duty-free imports, a major incentive is lacking for developing countries -- to the extent their exports to the U.S. come in under duty-free GSP treatment -- to adhere to the Subsidies Code. GSP treatment is neither a permanent concession nor a bound tariff obligation on the part of the United States. It should thus be a fairly straightforward matter to amend the legislation so that, for countries which have not signed the Subsidies Code, proof of injury would be required only in countervailing duty investigations involving articles receiving MFN or "statutory" duty-free treatment but not for articles which receive duty-free treatment, temporarily, under the GSP program.

IV. Comments on Proposed Legislation

Among the proposals to modify the GSP program which the International Trade Subcommittee is likely to review are two bills recently submitted in the Senate: S.3201 (by Senators Heinz and Moynihan), and S.3165 (by Senator Chafee). While the various provisions of these bills cover a number of specific problem-areas associated with the GSP program, in one way or another they would address the serious deficiencies which have been shown to exist in the domestic "safeguard" mechanisms originally built into the GSP program.

In my view, there has been an alarming tendency on the part of responsible officials of the Executive Branch to assume that domestic interests are adequately (and automatically) protected by the "competitive-need" limitations of Title V of the 1974 Trade Act. This presumption most definitely is not justified. As a result, I believe a false sense of security is being fostered among officials charged with administering the GSP program, as evidenced by the record of administrative action in which the benefit of the doubt has customarily been conferred upon the foreign rather than the domestic interests.

The experiences of many American industries during the first five years of the GSP program have shown that in many cases the supposed safeguard provisions are, for all practical purposes, meaningless. The value threshold of the competitive-need mechanism was \$41.9 million per beneficiary

country in 1979. For different types of merchandise, this limitation obviously will differ vastly in terms of its practical significance. To take as an example the U.S. industry producing ophthalmic (eyeglass) frames, the \$41.9 million ceiling translates into some 12 million frames -- more than a quarter of total U.S. consumption in 1979. Thus, if only four GSP beneficiary countries had exported to the U.S. last year at levels that were just under their competitive-need ceilings, together they could have captured the entire American market for eyeglass frames -- and the "safeguard" mechanism would still not have been activated. In this example, of course, the import-share threshold would also have been meaningless since none of the four exporting countries would necessarily have captured more than 50 percent of total U.S. imports of the product in any given year.

Both the Heinz-Moynihan bill and the Chafee bill would address some of the critical shortcomings in the GSP program's mechanisms for safeguarding domestic interests. Under the former, individual GSP beneficiary countries would lose their eligibility for certain product categories whenever their exports to the United States in the relevant sector (two-digit SIC code) surpass a specified value-threshold. While a sectoral approach of this sort would be a distinct improvement over the present, across-the-board mechanism, the problems arising from the application of a single value-threshold to widely different categories of merchandise would still remain. A possible remedy would be

to determine individual value-thresholds for each product category, based on the average unit value of all products within that category imported into the United States in a given year.

Under the Chafee bill, the problem would be addressed in somewhat different fashion by applying both a value-threshold (\$250 million) and an import-share threshold (50 percent of total imports of the product, by value) to the total imports from all GSP beneficiary countries of an eligible product. Again, the concept of a uniform value-threshold to be applied in all product categories is basically flawed. And while limiting GSP imports to no more than half of the total value of imports of a given product may help to moderate some of the competitive imbalances inherent in the present system, it would not offer much of a safeguard for industries experiencing steady losses to GSP imports in the high-volume, low-unit-value segments of their markets.

This latter point may be illustrated by the example of the U.S. loudspeaker industry. In 1978, imports of loudspeakers from all sources were valued at \$248 million -- which happens to be just below the value-threshold proposed in the Chafee bill for GSP beneficiary countries alone. (In terms of actual numbers of units, however, this amount already represented more than two-thirds of the U.S. market captured by imports.) The 50 percent ceiling in the Chafee bill would limit GSP imports to half this amount -- some

\$124 million -- which, on the basis of average unit values for the leading GSP suppliers, translates into more units than the total volume of imports at present; this is because average unit values are much lower for products imported from GSP beneficiary countries than for imports from the industrialized countries. The consequences would effectively be the same as under the present system: a domestic industry could be driven from the marketplace entirely without activating the "safeguard" mechanisms proposed in the Chafee bill. At a minimum, the import-share provisions of the Chafee bill should therefore be modified to allow calculation of the GSP share of total imports in terms of quantity as well as value.

Other provisions of the proposed legislation are certainly worthy of careful study by the Subcommittee. In particular, the proposal contained in the Heinz-Moyihan bill for suspension of GSP eligibility for products from a given country which are subject to outstanding countervailing or anti-dumping duties is one which is essential to effective enforcement of U.S. laws against unfair trade practices. The provisions of the Chafee bill would expand the criteria for determining eligibility of GSP beneficiary countries, to include such factors as economic growth rates, competitiveness, and manufacturing trade balances vis-a-vis the United States; elements such as these would be a useful addition to the limited criteria presently specified in

Title V, since per capita GNP alone is a notoriously "coarse" measure of a country's competitive potential in world markets. The Chafee bill's provision to deny GSP treatment to countries enjoying trade surpluses in manufactures with the U.S. is an especially sensible provision.

However, one proposal contained in the Chafee bill -- replacing the President's discretionary authority for determining the "anticipated impact" of GSP treatment under Section 501(3) with the more explicit "market disruption" criteria of Section 406(e)(2) -- is potentially troublesome, hinging as it does on a determination of material injury (or threat thereof) to the domestic industry. One of the painful lessons that have been learned in the recent past is that the "injury test" is far from a routine matter in U.S. administrative practice; for domestic industries, it requires substantial expenditures of time and money simply to ensure that their interests are understood (and, sometimes, preserved) by their own government. It is an imposing requirement that may have a place in the enforcement of U.S. laws against unfair trade practices; but it seems wholly inappropriate in the context of temporary tariff preferences, granted voluntarily and without reciprocity under the GSP program. To the extent that the discretionary authority of Section 501(3) has not been exercised wisely by the Executive Branch -- and I cannot conclude, on balance, that it has -- it would be far better to guide that process through more explicit criteria (regarding

"graduation" of beneficiaries and the import-sensitivity of eligible products) than to place additional hurdles in the path of hard-pressed American industries.

V. Recommendations

I believe several recommendations for revisions in the GSP program follow from the preceding analysis.

On the issue of graduation, I recommend that foreign policy considerations be tempered by a recognition that the more advanced of the developing countries will have to be removed from eligibility under the GSP program if a greater competitive edge in exporting to the U.S. is to be provided the lesser developing countries. Certainly those countries enjoying trade surpluses with the U.S. whose per capita incomes have increased significantly since the period before GSP was initiated are likely candidates for exclusion. Countries whose GSP shipments to the U.S. in the aggregate account for, say, more than 10 percent of total GSP imports should likewise be declared ineligible. Any one of these or perhaps other similar criteria should seriously be considered as a reasonable and equitable basis for removing the more advanced countries from eligibility under the program, and for restoring the broad distribution of GSP benefits among developing countries as the Congress originally intended.

On the issue of import-sensitive products, I recommend that this Subcommittee monitor closely whether the Executive

Branch does in fact "withdraw, suspend, or limit duty-free treatment," as the President's report says it will in the future. Specifically, in addition to the existing statutory exclusions, it is recommended that the following articles should be considered import sensitive:

1. Articles in cases where the ITC has made an affirmative determination of injury, or threat thereof, notwithstanding the eventual disposition of the cases. This would include anti-dumping and countervailing duty cases;

2. Articles which were exempted from duty cuts in the recent Multilateral Trade Negotiations. Both this and the preceding group were suggested for exclusion from the GSP program in the Senate Finance Committee's report on the 1974 Trade Act, to which I referred earlier;

3. Articles directly competitive with those excluded under the statute; and

4. Articles the imports of which under GSP have been growing significantly since the inception of the program, taking a growing share of the domestic market while domestic production and employment have either declined or stagnated.

On the issue of procedures, I would suggest several changes in present procedures, as follows:

1. Restrict the practice of arbitrary or inappropriate splitting of five-digit Tariff Schedule items in order to avoid triggering competitive-need levels;

2. Fix the competitive need level at \$25 to \$30 million;

3. Require the publication of more detailed analyses and reports on the reasons for both negative and affirmative decisions;

4. Eliminate referrals of GSP petitions to the ITC; and

5. Remove the disincentive for LDCs to join the Subsidies Code by extending the benefits of the injury-test requirement, in U.S. countervailing duty investigations involving non-Code signatories, only to articles imported under MFN or "statutory" duty-free treatment -- but not to articles receiving temporary duty-free treatment under GSP.

I recognize that many of these recommendations may be considered controversial by some. They represent, however, the result of five years of experience with the GSP program. They would redress the balance between domestic and foreign interests, which the Congress certainly intended when it drafted Title V of the Trade Act of 1974, but which has been weighted thus far in the direction of giving the benefit of the doubt to foreign interests. If the GSP program is to be publicly supportable, changes such as these are sorely needed.

STATEMENT OF NOVEMBER 25, 1980
to the
Subcommittee on International Trade
of the
Committee on Finance
of the
United States Senate

—on—
REVIEW OF THE U.S. GENERALIZED SYSTEM OF PREFERENCES
"GSP"

by the
PARTS Division
and the
TUBE Division
of the
Electronic Industries Association (EIA)

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parts and tubes.

The Electronic INDUSTRIES Association (EIA) regards the "electronics" sector of the economy as a number of separate, although related, industries. This Statement presents views of the "Parts" industry and the "Tube" industry; these two Divisions of EIA represent 138 companies, manufacturers of electronic parts and tubes in the USA. Their products are sold for consumer, industrial and governmental uses. In size, they range from small, single-product businesses to large, multinational corporations.

The U.S. factory sales of passive and electro-mechanical electronic components and tubes exceeded \$5.1 billion in 1979.

Exhibit-IV., accompanying this Statement, lists such of these electronic Parts and Tubes as are currently figuring in considerations by the Trade Policy Staff Committee, chaired by the U.S. Trade Representative (USTR), and by the U.S. International Trade Commission (USITC) with respect to:

- articles which might be designated as eligible for GSP...
...(in addition to those which are already eligible);

AND, although not directly pertinent
to the subject of this Statement:

- articles which might be the subject of international tariff-reducing negotiations...(further and in addition to the just-concluded Tokyo Round of Multilateral Trade Negotiations, the "MTN").

Exhibit-III., accompanying this Statement, is extracted from the Tariff Schedules of the United States (TSUS), Annotated 1980, and shows the present scope of GSP as to the developing countries which enjoy "Beneficiary" status, and as to the Articles (expressed in terms of their 5-digit TSUS classifi-

cation) which have "Eligible" status.

Please observe in Exhibits-III and -IV. that some electronic parts and tubes are already eligible, some are now being considered for eligibility, and others remain ineligible.

An interesting dichotomy appears in Television Picture Tubes, Monochrome. TSUS item 687.43 covers those "having a straight line dimension across the face plate less than 11.6 inches or greater than 16.4 inches." This means that they are tubes for black-and-white TV sets having relatively-small or relatively-large screen sizes. On this item, the USA's 1980 duty-rate is 14%. It is now being considered for eligibility; if designated under GSP, it could then be immediately imported duty-FREE. Please visualize the degree of "preference" involved here: From 14% under the Most Favored Nations (MFN) tariff to ZERO percent under GSP.

The neighboring TSUS item, 687.42, covers tubes for monochrome TV sets having screens between 11.6 inches and 16.4 inches. This item is already an Article Eligible for GSP from ALL beneficiary LDCs. So, one might wonder: Why not allow other monochrome TV tubes to come in duty-free, if some already do? There are several reasons.

In the first place, American tube manufacturers did not favor GSP for tubes. Item 687.42 was designated as eligible in spite of the 1974 Trade Act's Section 503(c)(1)...which cautioned the Executive Branch to pay particular heed when considering GSP affecting the products of five vulnerable domestic industries: Textiles and apparel, watches, ELECTRONIC ARTICLES, steel articles, footwear articles, and glass products.

In the second place, whereas GSP's intent was to encourage industrial-

ization in Less-Developed Countries (LDCs), American parts and tube manufacturers have become convinced that it does so with detrimental effect on manufacturing and employment in our own country. If LDCs are to be industrialized, we hasten to point out that TSUS items 806.30 and 807.00 are accomplishing it very effectively...while doing so with positive effect on manufacturing and employment here. The crucial difference between the two statutes is: "U.S.-Content."

806 and 807 hinge on the incorporation of U.S.-Content in articles entering the U.S. marketplace...or else there is no benefit.

GSP insists on the incorporation of LDC-Content...at least 35%...but leaves 65% content to originate ANYWHERE else. Thereby, it tacitly promotes the incorporation of non-U.S. materials, parts and labor in articles entering the U.S. marketplace...duty-FREE.

- We do urge amendment of the "Content" provisions of GSP so as to make duty-FREE entry into the USA contingent upon an article's containing, say, as much value of U.S. origin as of origins elsewhere than the LDC (and the USA).

Merely to illustrate our concept of such amendment: If 40% of an article's value originated in the Beneficiary country, and 30% had originated in, say, Japan, then 30% would have to have originated in the USA...in order for the article to become eligible under GSP. In other words, at least half of any NON-LDC Content would have to be of U.S. origin...or else the prevailing MFN duty-rate would be levied. If some (although insufficient for this tightened GSP) value had originated in the USA, then 806/807 would serve to admit that portion duty-free.

There IS interplay between the intent of GSP and the practice of 806/807!

In the third place, GSP's criteria for "Beneficiary" status are woefully deficient. The list of Beneficiary Developing Countries includes several whose human rights practices have been the reason for U.S. Government sanctions on our exports to them; yet, imports from them are not only allowed but can enter the USA without paying customs duty. The list also includes one country which has not only rejected any and all parts of the MTN Package, but which terminated its participation in the General Agreement on Tariffs and Trade (GATT). Furthermore, the list includes three countries which invented and are now imposing "Performance Requirements"...a new type of Non-Tariff Measure (still called "NTB").

Exhibit-I, accompanying this Statement, is our tabulation of certain "Characteristics of Nations Presently BENEFICIARY under GSP." In our opinion, the Senate International Trade Subcommittee might ponder enlarging the scope of amendment to GSP's provisions and criteria which has already been introduced by Senator John H. Chafee in S.3165, a bill "to amend the Trade Act of 1974 to improve the operation of the generalized system of preferences." The Subcommittee might find our Exhibit-I helpful in suggesting criteria for designating as Beneficiary Developing Countries only those which deserve so great a preference as duty-FREE entry of their products into the world's single greatest marketplace, ours.

We have already, two paragraphs ago, alluded to the new PERFORMANCE REQUIREMENTS being imposed by three Beneficiary Developing Countries. The particular countries imposing them are identified by key "E" in Exhibit-I. Typical "Performance Requirements" require a company assembling an end product to include very substantial local content (parts, materials and labor)

and to export goods of value equivalent to that of any parts or materials which are imported.

Exhibit-II, accompanying this Statement, is a more complete discussion of this new NTB being instituted by certain Advanced Developing Countries (ADCs)...a category which your Subcommittee is characterizing (in Press Release #H-62) as "Newly Industrializing Countries (NICs)."

Carrying out the intent of the international diplomatic community, the USA "binds" its duty-rates. Once we have agreed to a negotiated set of tariff reductions, the USA faithfully implements the new rates. In the wake of MTN, the first increment of agreed-upon reduction has already (1980) been put into effect, and the successive increments (until 1987) will certainly follow. However, the international diplomatic community is disposed to condone deviations by LDCs. That the Least-Developed Developing Countries (LDDCs) need not "bind" their duty-rates, might be justified. That ADCs do not regard their duty-rates as "bound," ought not be condoned. LDCs (including ADCs at the top of the spectrum) have a propensity to change their tariffs frequently and at will...usually upward.

Accordingly, we do not favor the extension of preferences to LDCs which have refrained from "binding" their tariffs and from signing many of the multilateral codes of conduct. Efforts should be exerted by the U.S. Government, particularly USTR, to bring more LDCs (especially the ADCs) into the community of trading nations covered by the comprehensive structure of international rules.

- We do urge amendment of the "Beneficiary" provisions of GSP so as to make duty-FREE entry into the USA contingent upon a developing country's willingness

to abide by the multilateral codes of conduct, to accord competitive access to imports from the USA into its own market, to refrain from requiring export performance as the price for local assembly, and to "bind" its duty-rates.

On page 4 of this Statement, we referred to S.3165. Also introduced by Senator Chafee, and also being considered by the Senate International Trade Subcommittee in this review of the U.S. Generalized System of Preferences, is S.3166. It would "postpone the designation" of certain articles which have recently been "subdivided" in the TSUS as eligible articles under GSP until the USITC "has conducted a study of potential market disruption."

The articles specified in the bill are all products of the jewelry industry; they are TSUS items 740.11 through 740.15. Whereas manufacturers of electronic parts and tubes do not have direct concern with these articles, we do have an interest in Subdivision of the TSUS.

The statutory purpose of the Tariff Schedules is to classify all articles which are imported into the USA so that differing customs duties can be applied to differing articles. For this purpose, the 5-digit level of classification is the so-called "duty line." All articles having the same 5-digit number bear the same duty-rate.

(The TSUS does go out to seven digits, but the last two serve only a secondary purpose: that of Statistical Annotation. They have no affect on the tariff.)

When an assortment of articles which has been covered by a single 5-digit item is "subdivided," those articles emerge each with its own 5-digit

number. That is the way to apply several different duty-rates where only one used to apply. The fundamental reason for subdividing is, therefore, to introduce variations in the Most-Favored Nations (MFN) tariff...all within the presumption that customs duty is going to be collected.

However, there has proved to be an incidental and unfortunate ripple effect over here, under GSP. Here, no customs duty is collected, but there is an import limitation linked to 5-digit classification: Imports of any (5-digit) article from any one LDC may not exceed \$25 million (now \$41 million) in a given year.

If, for tariff reasons, one article is subdivided into five articles (as were 740.11 through .15, the subjects of S.3166), there also results a 5-fold increase in the GSP limitation.

Please do not deduce from these paragraphs that American manufacturers of electronic parts and tubes oppose the practice of Subdivision. We have more respect for the fundamental reason than for its incidental and unfortunate ripple effect. We feel that the USA has taken a "basket approach" while our industrialized trading partners (competitors) have taken the "partitioned approach" to customs classification.

The USA uses the TSUS classification system. The rest of the trading nations in the free world (except Canada) all use a substantially different system: The "Customs Cooperation Council Nomenclature (CCCN)."

TSUS item 687.58 covers a category of so-called "active" electronic components...all of which bear the same duty-rate. Both the European Economic Community (EEC) and Japan use the CCCN, wherein item 85.21 covers active components. However, Japan has partitioned them so that 16 different duty-rates apply within 85.21; the EEC has partitioned the various components so that

nine different duty-rates apply. By these means, the EEC succeeded in holding its 17% (pre-MTN) duty-rate on Semiconductors...including transistors, integrated circuits; etc...while the USA is reducing its duty-rate on 687.58 Tubes, Crystals AND Semiconductors to 4.2% (by 1987).

TSUS item 687.58 is a veritable basket of articles. In the present TSUS, a variety of products (even of different industries) is frequently combined for the purpose of levying (at the 5-digit duty-line) the same tariff. Such combinations bear no relationship to the respective states of technology contained in the individual products, nor to the labor skills required in manufacturing them, nor to the peculiarities in markets which they serve. Accordingly, we advocate more partitioning, i.e., more "subdividing."

However, in view of the GSP ramifications of subdividing, we find great merit in Senator Chafee's concept that its disruptive consequences under GSP be assessed. Meanwhile, we do point out that S.3166 does not sufficiently cover the scope of articles which are or might be included under the same concept.

Nor, in our opinion, does S.3165 sufficiently cover the scope of improvement which GSP's operation now warrants. We urge you to consider the further amending of its "Content" and its "Beneficiary" provisions.

In conclusion, American manufacturers of electronic parts and tubes recommend that GSP no longer be regarded as a "preference" to be granted to those requesting it. Henceforth, we recommend that it be regarded as a concession, made in the course of bilateral negotiation, to those nations which, by their own conduct vis a vis the USA, have earned it.

EXHIBIT-I.

**THE CHARACTERISTICS
OF CERTAIN NATIONS PRESENTLY
"BENEFICIARY" UNDER GSP**

Listed on the next page are 19 (out of the 141) countries which are presently designated as Beneficiary Developing Countries. We have selected these EITHER because they figure in electronics trade OR because they illustrate characteristics being cited in this Exhibit.

On the next page, the columns on the right-hand side indicate whether or not the country has signed the five (5) multilateral codes of conduct which, in our opinion, ought to figure in a proper decision as to "Beneficiary" status:

Subsidies
Antidumping
Customs Valuation
Import Licensing
Government Procurement

The column on the left-hand side of the next page indicates which of the economic and political characteristics described below apply to a given Beneficiary Country. In our opinion, these should also figure in a proper decision as to "Beneficiary" status:

Key

- A = the USA suffered in 1979 (or is about to suffer in 1980) a DEFICIT in its bilateral trade with this country.
- B = is a petroleum exporting country.
- C = is designated as a "Least-Developed Developing Country (LDDC)" in the Tariff Schedules of the United States (TSUS); there has been official recognition that certain Beneficiaries warrant MORE preference than others.
- D = candidate for designation as an "Advanced Developing Country (ADC)," sometimes called "Newly Industrializing Country (NIC);" there has NOT been official recognition that certain Beneficiaries warrant LESS preference than others.
- E = imposes (trade-related) "Performance Requirements." SEE: Exhibit-V, accompanying this Statement.
- F = a "non-market" economy which (more so than its Communism) means that Price does not reflect the true magnitude of Cost and, hence, that the true percentages of "Content" (by value, and by origin) cannot be properly determined or, if so, audited.
- G = exports from the USA to this country have been the subject of sanctions for reasons of U.S. foreign policy.
- H = is considered in the TSUS as dependent upon the United Kingdom; typifies 32 Beneficiaries which are designated as "Non-Independent Countries."
- I = about to join the European Economic Community (EEC).

EXHIBIT-I. (CONT.)

**THE CHARACTERISTICS
OF CERTAIN NATIONS PRESENTLY
"BENEFICIARY" UNDER GSP**
(continued)

<u>KEY</u>		<u>Subsidies</u>	<u>Anti-dumping</u>	<u>Customs Valuation</u>	<u>Import Licensing</u>	<u>Government Procurement</u>
F	Angola	No	No	No	No	No
D, G	Argentina	No	No	Yes	Yes	No
C	Bengladesh	No	No	No	No	No
B	Bahrain	No	No	No	No	No
A, D, E	Brazil	Yes	Yes	No	No	No
G	Chile	Yes	No	No	Yes	No
A, D, H	Hong Kong	Yes	Yes	Yes	Yes	Yes
D	India	Yes	Yes	Yes	Yes	No
B	Indonesia	No	No	No	No	No
D	Israel	No	No	No	No	No
A, D	Korea	Yes	No	No	No	No
A	Malaysia	No	No	No	No	No
B, D, E	Mexico	No	No	No	No	No
D, E, I	Portugal	No	No	No	No	No
F	Romania	No	No	Yes	Yes	No
A, D	Singapore	No	No	No	No	No
A, D	Taiwan	No	No	No	No	No
A, B, D	Venezuela	No	No	No	No	No
F	Yugoslavia	Yes	Yes	No	Yes	No

The source of the information entered in these five columns is: USTR Staff Memo of November 12, 1980, re "Status of MTN Code Signatures."

EXHIBIT-II.Trade-Related PERFORMANCE REQUIREMENTS
October, 1980

Some of the more advanced Less-Developed Countries have instituted stringent "performance requirements" which are being imposed on companies within their key industries. The concept arose about four years ago in Spain, where it was first applied to the automotive assembly industry. Portugal and Mexico then began imposing similar requirements on their automotive assembly industries. Brazil picked up the practice and soon extended it to the general aviation industry, as well.

Thus, the concept proliferates...from industry to industry, from country to country. It is obviously most appealing to Less-Developed Countries (LDCs) where key industries have, indeed, attained sufficient size to become vulnerable to manipulation by decree. Typically, the method of imposing performance requirements involves the following:

- A. A company assembling an end-product is required to include substantial local content (parts, materials, labor, etc.) in its operations;

AND

- B. A company importing parts for such an end-product is required to export an equivalent value of goods...

...OR ELSE, such companies face increases in local taxation, reduction of government-provided incentives and subsidies, and constraints on their access to government-controlled or -influenced markets.

This method, which is manifestly trade-distorting in its consequences, ties taxation and subsidy benefits to export performance while, simultaneously, fostering subsidized import substitution. This, we submit, is contrary to the intent and provisions of the GATT Agreement on Subsidies. Furthermore, its ripple effects create circumstances wherein affected companies might find themselves obliged to resort to dumping on the world market in order to comply.

Our industries object to this spreading practice because we supply substantial quantities of electronic components to the key industries on which "performance requirements" are being imposed...and to other industries which, already operating in such countries, are likely candidates for future imposition.

Usually competitive in price and technology, our manufacturers are nevertheless becoming progressively restricted in their ability to serve export customers subjected to performance requirements and, moreover, to serve even domestic customers absorbing imports (often at less than fair market value) from countries where these requirements foment glut.

EXHIBIT-II. (CONT.)

(2)

IN MEXICO AND BRAZIL

Mexico imposes these requirements on its automotive assembly industry: A company assembling passenger cars must include 70% content of local origin; trucks 80%; both go up next year. Import licenses must be obtained for automotive parts, and the importer must export equivalent value in order to have the license approved.

Tariffs on imported automotive parts run as high as 40%, and the duty is applied to Mexican Customs' valuation (not to Transaction Value as in the GATT Agreement on Customs Valuation) of incoming articles.

The automobile assembly plants in Mexico are controlled by foreign corporations, but new decrees limit the foreign ownership in new parts-manufacturing companies to 40%.

It is understood that Brazil requires 50% local content in cars and trucks assembled there. Local automotive parts suppliers must export 50% of their production. Now, Brazil has recently imposed similar requirements on the aircraft assembly industry.

• • •

THE RIPPLE EFFECTS

It is obvious that Performance Requirements work best when a key assembly plant exists in an LDC, and is controlled by a foreign corporation. If so, Requirement A. presses the assembler toward developing local parts suppliers; the controlling corporation can accomplish this by spinning off subsidiaries. Once local parts suppliers are set up, Requirement B. presses the assembler toward arranging the exportation of as many parts as it requires for local assembly (or of goods equivalent in value); again, the controlling corporations can accomplish this by absorbing the export contingent in their operations elsewhere in the world market.

Visualize that, by these subtle means, a secondary-level complex has been brought into existence, justified by the alleged need to support a key local industry. Parts made locally do supplant parts which had previously been imported from foreign suppliers, but the secondary-level manufacturers soon discover that local demand is, in reality, rather low and quite variable; they are ratcheted into boosting production and sustaining it at an optimum level, with intention to dispose of the overrun elsewhere, i.e., in the world market. This is the scenario within which performance requirements could place complying companies in a predicament from which dumping seems a ready solution.

Impact of the Mexican and Brazilian performance requirements on U.S. automotive parts (including electronic products) manufacturers is already evident in two ways: By the perceptible loss of erstwhile export markets in those two countries, AND by the perceptible penetration of our domestic market by imports from Mexico and Brazil. Please understand that automobiles now have considerable electronic content: In ignition systems, audio systems, sensing devices and instrumentation.

Impact of the Brazilian performance requirement on U.S. manufacturers

(3)

in the general aviation industry is already evidenced by growing imports of the "Bandeirante" commuter plane. Penetration of the domestic market by Made-in-Brazil parts and sub-assemblies for general aircraft made here can be anticipated. Please understand that private and commuter aircraft have about 20% electronic content.

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MULTILATERAL ROUTE TO REMEDY

There are American parties who regard Performance Requirements as violating GATT and, hence, urge that recourse in the multilateral forum be taken by USTR.

When considering what might be accomplished via GATT, it is noteworthy that Mexico, Portugal, and Spain were NOT among the signatories of the MTN Agreement on Subsidies nor, to the best of our knowledge, the Import Licensing Agreement either. Mexico, after engaging in the MTN, finally rejected all of the multilateral agreements on tariff and non-tariff measures.

However, those circumstances would not prevent GATT from ruling that Performance Requirements are improper, and that member nations are justified in restricting imports from any country imposing them.

Also, when considering what might be accomplished via GATT, it is noteworthy that the USA is not the only nation offended by Performance Requirements. Even as they affect the automotive industry alone, offense is given to Japan, Germany, Italy, France, England and Sweden...where are headquartered the automotive industry's leading corporations.

Further: Four of the European nations, above, would find it hard to admit Portugal into the EEC...a process approaching completion...if Performance Requirements persisted there. Were the EEC to condone them in Portugal, then Ireland (already a member) could rightfully demand the same concession. Greece (membership imminent) and Spain (membership pending) would surely follow suit.

All of this suggests a strategy whereby the USA, Japan, Germany, Italy, France and Sweden might co-petition GATT for a ruling against Performance Requirements. Failing that, they could at least launch a joint effort toward obtaining the signatures of Brazil, Portugal, and Spain to the MTN Agreements on Subsidies and on Import Licensing...and toward bringing Mexico back into the community of trading nations now conforming to multilateral rule and procedure.

• • •

UNILATERAL ROUTE TO REMEDY

There are also American parties who feel that Performance Requirements qualify for unilateral action right here, utilizing the new (and beefed-up) "301." The Trade Agreements Act of 1979 (Section 901) amended the old provision to become a method for targeted (narrower than "MFN") retaliation

EXHIBIT-II. (CONT.)

(4)

against nations engaging in discriminatory trade practices; "301" actions do not entail the test of injury to affected domestic industries.

On complaints brought by private sector parties, the "tribunal" of first instance is the "301 Committee," chaired by USTR and composed by various Executive Branch departments and agencies.

However, under the new statute, the Federal Government may itself initiate actions based on evidence at hand...without awaiting formal complaints by private sector parties.

THE ROUTES INTERSECT AT USTR

Observe that whichever route to remedy be contemplated, they both rely on action by USTR, whose Office has been apprised of industry's concerns about Performance Requirements.

How aggressively would the U.S. Government be inclined to act vis-a-vis the LDCs?

Brazil, Mexico, and Portugal (but not Spain) are deemed "Beneficiary Developing Countries" under the USA's Generalized System of Preferences (GSP). This system is administered by the Trade Policy Staff Committee, also chaired by USTR and composed of various Executive Branch departments and agencies.

Initially, the LDCs were a monolithic category. GSP was withheld only from those which had aligned themselves with adversary nations, or which had participated in the OPEC oil embargo.

Then, recently, there was recognition of 26 Least-Developed Developing Countries (LDDCs) as so deserving of "preference" that imports from them bear, now in 1980, the U.S. tariffs which Most-Favored Nations (MFN) may not enjoy until 1987. Thereby, the U.S. Government created a partition at the lower end of the LDC spectrum.

Meanwhile, in macro-economic circles, there has been some breaking out of ADCs (Advanced Developing Countries) at the upper end of the spectrum. Brazil, Mexico, Portugal...as well as Hong Kong and others...have attained advanced stature. Economically speaking, ADCs don't warrant so much "preference" as LDCs...and LDDCs deserve more.

It would seem to us that the industrialized nations, the USA certainly among them, must increase pressure on ADCs to execute more of the MTN Agreements. The same tolerance of non-participation as is extended to LDDCs ought not extend to ADCs. Such ADCs as refrain from broad participation in the multilateral codes of conduct should not be given tacit license to engage in practices which, downstream, in their ripple effects, distort the trade of signatory nations.

Is USTR ambivalent on issues involving "Content"?

On the one hand, USTR's negotiating team did not, while in Tokyo last

EXHIBIT-II. (CONT.)

(5)

May, even bring up the United Auto Workers' (UAW) recommendation that cars imported from Japan have a minimum of U.S. Content; our negotiators took the position that GATT prohibits any restrictions based on local Content.

On the other hand, USTR does accept the EEC-and-EFTA Rules of Origin, which require 60% European Content (70% for "Semiconductors") as a prerequisite for duty-free trade within 14 nations. The EEC is a "Customs Union" behind a Common External Tariff boundary surrounding nine nations. EFTA is a "Free Trade Area" which includes five nations. Thus, we find ourselves confronted with collusion by two supra-national bodies which, not being subject to restraint-of-trade limitations, openly proceed with concerted action constraining the flow of commerce.

October, 1980

- This paper is informative of character. It does not constitute a formal Position of the Electronic Industries Association (EIA).

EXHIBIT-III.

TARIFF SCHEDULES OF THE UNITED STATES ANNOTATED (1980)

GENERAL HEADNOTES AND RULES OF INTERPRETATION

Page 3

1. **Tariff Treatment of Imported Articles.** All articles imported into the customs territory of the United States from outside thereof are subject to duty or exempt therefrom as proscribed in general headnote 3.

2. **Customs Territory of the United States.** The term "customs territory of the United States", as used in the schedules, includes only the States, the District of Columbia, and Puerto Rico.

3. **Rates of Duty.** The rates of duty in the "Rates of Duty" columns numbered 1 and 2 and the column designated LDCC of the schedules apply to articles imported into the customs territory of the United States as hereinafter provided in this headnote:

(a) **Products of Insular Possessions.**

(i) Except as provided in headnote 4 of schedule 7, part 2, subpart E, and except as provided in headnote 3 of schedule 7, part 7, subpart A, articles imported from insular possessions of the United States which are outside the customs territory of the United States are subject to the rates of duty set forth in column numbered 1 of the schedules, except that all such articles the growth or product of any such possession, or manufactured or produced in any such possession from materials the growth, product, or manufacture of any such possession or of the customs territory of the United States, or of both, which do not contain foreign materials to the value of more than 50 percent of their total value (or more than 70 percent of their total value with respect to watches and watch movements), coming to the customs territory of the United States directly from any such possession, and all articles previously imported into the customs territory of the United States with payment of all applicable duties and taxes imposed upon or by reason of importation which were shipped from the United States, without remission, refund, or drawback of such duties or taxes, directly to the possession from which they are being returned by direct shipment, are exempt from duty.

(ii) In determining whether an article produced or manufactured in any such insular possession contains foreign materials to the value of more than 50 percent, no material shall be considered foreign which, at the time such article is entered, may be imported into the customs territory from a foreign country, other than Cuba or the Philippine Republic, and entered free of duty.

(iii) Subject to the limitations imposed under section 503(b) and 504 of the Trade Act of 1974, articles designated eligible articles under section 503 of such Act which are imported from an insular possession of the United States shall receive duty treatment no less favorable than the treatment afforded such articles imported from a beneficiary developing country under title V of such Act.

(b) **Products of Cuba.** Products of Cuba imported into the customs territory of the United States, whether imported directly or indirectly, are subject to the rates of duty set forth in column numbered 1 of the schedules. Preferential rates of duty for such products apply only as shown in the said column 1. ^{1/}

^{1/} By virtue of section 401 of the Tariff Classification Act of 1967, the application to products of Cuba of either a preferential or other reduced rate of duty in column 1 is suspended. See general headnote 3(f), *infra*.

* (c) **Products of Countries Designated Beneficiary Developing Countries for Purposes of the Generalized System of Preferences (GSP).**

(1) The following countries and territories are designated beneficiary developing countries for purposes of the Generalized System of Preferences, provided for in Title V of the Trade Act of 1974 (88 Stat. 2046, 19 U.S.C. 2461 *et seq.*):

Independent Countries 2/

Angola	Maldives
Argentina	Mali
Bahamas	Malta
Bahrain	Mauritania
Bangladesh	Mauritius
Barbados	Mexico
Benin	Morocco
Bhutan	Mozambique
Bolivia	Nauru
Burkina Faso	Nepal
Brazil	Nicaragua
Burma	Niger
Burundi	Oman
Cameroon	Pakistan
Cape Verde	Panama
Central African Republic	Papua New Guinea
Chad	Paraguay
Chile	Peru
Colombia	Philippines
Comoros	Portugal
Congo	Romania
Costa Rica	Rwanda
Cyprus	Saint Lucia
Djibouti	Saint Vincent and the Grenadines
Dominica	San Tomé and Príncipe
Dominican Republic	Senegal
Ecuador	Seychelles
Egypt	Sierra Leone
El Salvador	Singapore
Equatorial Guinea	Somalia
Fiji	Sri Lanka
Gambia	Sudan
Ghana	Suriname
Grenada	Swaziland
Guatemala	Syria
Guinea	Taiwan
Guinea-Bissau	Tanzania
Guyana	Thailand
Haiti	Togo
Honduras	Tonga
India	Trinidad and Tobago
Indonesia	Tunisia
Israel	Turkey
Ivory Coast	Tuvalu
Jamaica	Uganda
Jordan	Upper Volta
Kenya	Uruguay
Kiribati	Venezuela
Korea, Republic of	Western Samoa
Lebanon	Yemen (Sana)
Lesotho	Yugoslavia
Liberia	Zaire
Madagascar	Zambia
Malawi	
Malaysia	

^{2/} Pursuant to section 4(b)(1) of the Taiwan Relations Act (22 U.S.C. 3303(b)(1)) the reference to countries includes Taiwan.

(3rd supp. 7/1/80)

TARIFF SCHEDULES OF THE UNITED STATES ANNOTATED (1980)
GENERAL HEADNOTES AND RULES OF INTERPRETATION

Page 4

Non-Independent Countries & Territories

Antigua	Macao
Bahia	Montserrat
Bermuda	Netherlands Antilles
British Indian Ocean Territory	New Caledonia
British Solomon Islands	New Hebrides Condominium
Brunei	Niue
Cayman Islands	Norfolk Island
Christmas Island (Australia)	Pitcairn Islands
Cocos (Keeling) Islands	Saint Christopher-Nevis-Anguilla
Cook Islands	Saint Helena
Falkland Islands (Lease Malvinas)	Southern Rhodesia (Zimbabwe)
French Polynesia	Tobago Islands
Gibraltar	Trust Territory of the Pacific Islands
Heard Island and McDonald Islands	Turke and Caicos Islands
Hong Kong	Virgin Islands, British
	Wallis and Futuna Islands
	Western Sahara

(ii) Articles for which the designations "A" or "A*" appear in the column entitled "GSP" of the schedules are those designated by the President to be eligible articles for purposes of the GSP pursuant to Section 503 of the Trade Act of 1974. The designation "A" signifies that all beneficiary developing countries are eligible for preferential treatment with respect to all articles provided for in the designated TSUS item, while the designation "A*" indicates that certain beneficiary developing countries, specifically enumerated in subdivision (c)(iii) of this headnote, are not eligible for such preferential treatment with regard to any article provided for in the designated TSUS item. Whenever an eligible article is imported into the customs territory of the United States directly from a country or territory listed in subdivision (c)(i) of this headnote, it shall receive duty-free treatment, unless excluded from such treatment by subdivision (c)(iii) of this headnote, provided that, in accordance with regulations promulgated by the Secretary of the Treasury the sum of (A) the cost or value of the materials produced in the beneficiary developing country or any 2 or more countries which are members of the same association of countries which is treated as one country under section 502(a)(3) of the Trade Act of 1974, plus (B) the direct costs of processing operations performed in such beneficiary developing country or such member countries is not less than 35 percent of the appraised value of such article at the time of its entry into the customs territory of the United States.

(iii) The following designated eligible articles provided for in TSUS item numbers preceded by the designation "A*", if imported from a beneficiary developing country set opposite the TSUS item numbers listed below, are not entitled to the duty-free treatment provided for in subdivision (c)(ii) of this headnote:

TSUS Item Number	Country or Territory	TSUS Item Number	Country or Territory
107.00	Argentina	319.05	India
114.04	Thailand	340.35	India
114.06	Thailand	389.61	Hong Kong
121.55	India	419.60	Chile
121.61	India	420.82	Israel
135.30	Mexico	422.76	Mexico
135.90	Mexico	425.04	Netherlands Antilles
136.00	Dominican Republic	425.06	Brazil
136.50	Mexico	428.34	Brazil
136.60	Mexico	437.64	Brazil
137.40	Mexico	473.32	Mexico
137.71	Mexico	473.56	Mexico
138.05	Mexico	511.25	Mexico
140.21	Mexico	514.71	India
141.70	Taiwan	517.24	Malagasy Republic
141.77	Mexico	518.41	Mexico
144.12	Argentina	520.35	Thailand
146.22	Turkey	522.21	Mexico
146.44	Philippines	532.31	Mexico
147.98	Mexico	534.94	Taiwan
148.12	Mexico	535.31	Mexico
148.19	Mexico	545.33	Mexico
148.27	Mexico	545.63	Mexico
148.72	Chile	545.65	Taiwan
149.50	Mexico	603.40	Chile
	{Brazil	603.50	Chile
153.20	{Dominican Republic	612.03	{Peru
	{Philippines		{Chile
155.35	{Dominican Republic	612.04	{Peru
156.40	Brazil	618.15	Venezuela
176.15	Brazil	622.40	Brazil
176.17	Philippines	648.97	Taiwan
192.21	Colombia	650.89	Hong Kong
192.45	Israel	651.13	Hong Kong
192.65	Mexico	651.21	Taiwan
200.91	Honduras	652.84	Mexico
202.42	Mexico	653.67	Taiwan
204.30	Mexico	653.48	Taiwan
204.47	Taiwan	653.85	Taiwan
204.50	Honduras	653.93	Taiwan
204.60	Mexico	654.07	Taiwan
204.98	Taiwan	654.12	Taiwan
220.20	Portugal	657.24	Taiwan
220.25	Portugal	660.42	Brazil
220.48	Portugal	660.48	Mexico
222.10	Hong Kong	662.35	Mexico
240.02	Philippines	674.35	Taiwan
240.10	Brazil	676.20	Hong Kong
240.19	Taiwan	676.52	{Hong Kong
245.20	Brazil		{Mexico
254.60	Republic of Korea	678.50	{Hong Kong
254.87			{Republic of Korea
304.35	Hong Kong		{Taiwan
315.25	Mexico	682.60	Mexico
319.01	India	683.15	Mexico

1/ Pursuant to section 4(b)(1) of the Taiwan Relations Act (22 U.S.C. 3303(b)(1)) the reference to countries includes Taiwan.

(3rd supp. 7/1/80)

TARIFF SCHEDULES OF THE UNITED STATES ANNOTATED (1980)
GENERAL HEADNOTES AND RULES OF INTERPRETATION

TSUS Item Number	COUNTRY or TERRITORY ⁽¹⁾	TSUS Item Number	COUNTRY or TERRITORY ⁽¹⁾
683.70	Hong Kong	734.10	Taiwan
683.80	Hong Kong	734.15	Taiwan
684.15	Singapore	734.20	Hong Kong
684.20	Hong Kong	734.25	Hong Kong
684.50	Hong Kong	734.34	Hong Kong
684.70	Taiwan	734.51	Taiwan
	Hong Kong	734.56	Haiti
	Republic of Korea	734.87	Taiwan
685.24	Singapore	734.90	Taiwan
	Taiwan	735.07	Republic of Korea
685.40	Taiwan	735.09	Taiwan
685.90	Mexico	735.20	Taiwan
686.24	El Salvador	737.25	Taiwan
686.30	Taiwan	737.30	Republic of Korea
686.50	Mexico	737.45	Hong Kong
687.30	Malaysia	737.50	Hong Kong
688.10	Taiwan	737.60	Hong Kong
688.12	Mexico	737.80	Hong Kong
688.15	Mexico		Hong Kong
688.35	Republic of Korea	737.95	Taiwan
688.45	Hong Kong	740.10	Hong Kong
	Brazil	740.30	Hong Kong
692.32	Mexico	740.34	Hong Kong
696.10	Taiwan	740.70	Israel
696.35	Taiwan	741.25	Hong Kong
702.14	Republic of Korea	750.05	Hong Kong
702.47	Mexico	750.35	Taiwan
703.65	Mexico	751.05	Taiwan
703.75	Mexico	755.25	Hong Kong
706.40	Hong Kong	771.45	Taiwan
709.40	Hong Kong	772.03	Hong Kong
713.15	Mexico	772.35	Taiwan
722.44	Hong Kong	772.51	Republic of Korea
725.08	Republic of Korea	772.97	Hong Kong
725.32	Taiwan	774.45	Hong Kong
725.46	Republic of Korea	790.25	Philippines
726.90	Mexico	790.35	Taiwan
727.15	Taiwan	790.70	Republic of Korea
727.23	Republic of Korea	792.50	Philippines
727.35	Taiwan	792.60	Hong Kong
730.29	Brazil	792.75	Hong Kong
730.41	Brazil		

(4) **Products of Least Developed Developing Countries.**

(1) The following countries are designated least developed developing countries (LDDC's) and, subject to restrictions of subparagraph (1), products of such countries imported into the customs territory of the United States, whether imported directly or indirectly, and which are entered under TSUS item numbers for which rates of duty appear in the column entitled "LDDC" of the schedules, are eligible for full tariff reductions without staging in accordance with Section 503(a)(2)(A) of the Trade Agreements Act of 1979 (93 Stat. 251):

- ⊙ Bangladesh
- ⊙ Benin
- ⊙ Bhutan
- ⊙ Botswana
- ⊙ Burundi
- ⊙ Cape Verde
- ⊙ Central African Republic
- ⊙ Chad
- ⊙ Comoros
- ⊙ Cambodia
- ⊙ Guinea
- ⊙ Haiti
- ⊙ Lesotho
- ⊙ Malawi
- ⊙ Maldives
- ⊙ Mali
- ⊙ Nepal
- ⊙ Niger
- ⊙ Branda
- ⊙ Somalia
- ⊙ Sudan
- ⊙ Tanzania
- ⊙ Uganda
- ⊙ Upper Volta
- ⊙ Western Samoa
- ⊙ Yemen (Sana)

⊙ 1/ Pursuant to section 4(b)(1) of the Taiwan Relations Act (22 U.S.C. 3303(b)(1)), the reference to countries includes Taiwan.

(11) Imported articles, the products of least developed developing countries as designated in paragraph (1) above, provided for under the TSUS items for which rates of duty appear in the column entitled "LDDC" of the schedules, are subject to those rates of duty rather than the rates of duty provided for in column numbered 1, except that articles subject to temporary modifications under any provisions of the Appendix to these schedules shall be subject to the rates of duty set forth therein. If no rate of duty is provided in the "LDDC" column for a particular item, the rate of duty provided in column numbered 1 shall apply.

(c) **Products of Canada.**

(1) Products of Canada imported into the customs territory of the United States, whether imported directly or indirectly, are subject to the rates of duty set forth in column numbered 1 of the schedules. The rates of duty for a Canadian article, as defined in subdivision (a)(ii) of this headnote, apply only as shown in the said column numbered 1.

(14) The term "Canadian article", as used in the schedules, means an article which is the product of Canada, but does not include any article produced with the use of materials imported into Canada which are products of any foreign country (except materials produced within the customs territory of the United States), if the aggregate value of such imported materials when landed at the Canadian port of entry (that is, the actual purchase price, or if not purchased, the export value, of such materials, plus, if not included therein, the cost of transporting such materials to Canada but exclusive of any landing cost and Canadian duty) was --

- (A) with regard to any motor vehicle or automobile truck tractor entered on or before December 31, 1967, more than 60 percent of the appraised value of the article imported into the customs territory of the United States; and
- (B) with regard to any other article (including any motor vehicle or automobile truck tractor entered after December 31, 1967), more than 50 percent of the appraised value of the article imported into the customs territory of the United States.

(f) **Products of Communist Countries.** Notwithstanding any of the foregoing provisions of this headnote, the rates of duty shown in column numbered 2 shall apply to products, whether imported directly or indirectly, of the following countries and areas pursuant to section 401 of the Tariff Classification Act of 1962, to section 231 or 237(a)(2) of the Trade Expansion Act of 1962, or to action taken by the President thereunder: 2/

⊙

2/ In Proclamation 4697, dated October 23, 1979, the President, acting under authority of section 404(a) of the Trade Act of 1974 (88 Stat. 1978) amended general headnote 3(e) by deleting "China (any part of which may be under Communist domination or control)" and "Tibet", effective February 1, 1980, the date on which written notices of acceptance were exchanged, following adoption on January 24, 1980 by the Congress of a concurrent resolution of approval extending nondiscriminatory treatment to the products of the People's Republic of China. (3rd supp. 7/1/80)

EXHIBIT-IV.

These accompany the November 25, 1980 Statement of the Parts and Tube Divisions of the Electronic Industries Association (EIA) to the Senate International Trade Subcommittee.

EXTRACTS

from the Tariff Schedules
of the United States,
Annotated (1980)

TSUS item 682.05 "Transformers." The current MFN = 11.8% ad valorem (6.6% by 1987). Under GSP, this item is already eligible for duty-free entry from ALL beneficiary developing countries.

TSUS item 684.70 "Microphones; loudspeakers; head phones; audio-frequency electric amplifiers; electric sound amplifier sets comprised of the foregoing articles (including microphone stands)." The current MFN = 7.2% ad valorem (4.9% by 1987). Under GSP, this item is already eligible for duty-free entry from beneficiary developing countries EXCEPT Taiwan.

TSUS item 685.90 "Electrical Switches, relays, fuses, lightning arresters, plugs, receptacles, lamp sockets, terminals, terminal strips, junction boxes and other electrical apparatus for making or breaking electrical circuits, for the protection of electrical circuits, or for making connections to or in electrical circuits; switchboards (except telephone switchboards) and control panels; all the foregoing and parts thereof." The current MFN = 8.1% ad valorem (5.3% by 1987). Under GSP, this item is already eligible for duty-free entry from beneficiary developing countries EXCEPT Mexico.

TSUS item 686.18 "Automatic voltage and voltage-current regulators, with or without cut-out relays...Designed for use in a 6-volt, 12-volt, or 24-volt systems." The current MFN = 3.9% ad valorem (3.1% by 1987). Under GSP, this item is already eligible for duty-free entry from ALL beneficiary developing countries.

TSUS item 687.43 "Television Picture Tubes" (monochrome) (having a straight line dimension across the faceplate less than 11.6 inches or greater than 16.4 inches). The current MFN = 14% ad valorem (7.2% by 1987). This item is not presently eligible under GSP. However, it is among the "Articles Which May Be Considered for Designation As Eligible" pursuant to the November 1980 hearings by the Trade Policy Staff Committee chaired by USTR.

TSUS items 687.5810 through 687.5823 "Electronic Tubes (except X-ray and cathode-ray tubes)" and item 687.5868 "Mounted piezo-electric crystals." The current MFN = 5.8% ad valorem (4.2% by 1987). These items are not presently eligible under GSP, nor are they among the "Articles Which May Be Considered for Designation as Eligible" pursuant to these hearings.

"Exhibit-III" TSUS pp. 3-5. SEE: General Headnote 3(c) "Products of Countries Designated Beneficiary Developing Countries for Purposes of the Generalized System of Preferences (GSP)." Here are explained the symbols "A" and "A*" indicating the GSP status set forth above.

INTERNATIONAL PACKAGING CORPORATION
517 MINERAL SPRING AVENUE
PAWTUCKET, RHODE ISLAND 02860

JOHN J. FLANAGAN, JR.
VICE PRESIDENT FINANCE
TREASURER

October 9, 1980

The Honorable John H. Chafee
U. S. Senator for Rhode Island
3105 Dirksen S.O.B.
Washington, D. C. 20510

Dear Senator Chafee:

We at International Packaging Corp. are all very pleased to hear of the bills that you have recently introduced pertaining to the jewelry industry.

We are very anxious to see the successful legislation of these proposed bills and would request that you please keep us very current on the progress that is made.

Regards,

INTERNATIONAL PACKAGING CORP.


John J. Flanagan, Jr.
Vice President-Finance

JJF/vba

33 Eastern Avenue
East Providence
Rhode Island 02914
401 434-5600

Lorgnettes Company

A Division of Golden Gate Corporation

JUL 31 1980
0001 1870
JUL 24, 1980

THE HONORABLE JOHN H. CHAFEE
301 JOHN O. PASTORE FEDERAL BUILDING
PROVIDENCE, R. I. 02903

DEAR SENATOR CHAFEE:

ON JULY 15TH, THE OPTICAL MANUFACTURERS ASSOCIATION PETITIONED THE SPECIAL TRADE REPRESENTATIVE TO REMOVE EYEGLOSS FRAMES IMPORTED FROM HONG KONG FROM THE LIST OF GSP ELIGIBLE NO-DUTY ARTICLES.

THIS MARKS A SIGNIFICANT NEW APPROACH TO OMA'S CONTINUING EFFORTS TO SAVE THE DOMESTIC INDUSTRY, AND IT WAS SUGGESTED BY REP. BARBER CONABLE (R-NY) AFTER HE QUESTIONED ADMINISTRATION WITNESSES DURING RECENT HEARINGS ON THE GSP PROGRAM.

DOMESTIC EYEGLOSS FRAME MANUFACTURERS ARE FIGHTING FOR THEIR LIVES, AND THE LIVELIHOODS OF THE THOUSANDS OF WORKERS WE EMPLOY. CONTINUED GSP TREATMENT OF HONG KONG, WHICH IS AN "UNDERDEVELOPED" COUNTRY IN NAME ONLY, THWARTS THE REAL INTENT OF THE STATUTE AND THREATENS THE SURVIVAL OF OUR SMALL, BUT VITAL, DOMESTIC INDUSTRY.

PLEASE HELP US SAVE THE DOMESTIC FRAME INDUSTRY BY CONTACTING TRADE AMBASSADOR ASKEW AND GSP SUBCOMMITTEE CHAIRMEN TIM BENNETT IN SUPPORT OF THE OMA PETITION.

THANK YOU FOR YOUR CONSIDERATION.

SINCERELY,

LORGNETTES COMPANY


GERALD A. ARCARO
VICE PRESIDENT

BEFORE THE COMMITTEE ON FINANCE
SUBCOMMITTEE ON INTERNATIONAL TRADE
UNITED STATES SENATE

Hearings To Review The
Operation of the U.S.
Generalized System of Preferences

STATEMENT OF
MILLERS' NATIONAL FEDERATION

INTRODUCTION

The Millers' National Federation (the Federation) is the national trade association of the wheat and rye flour millers industry of the United States. The Millers' National Federation is currently celebrating its 79th year of representing the domestic flour milling industry. Its members operate 133 mills in 36 states and Puerto Rico. The Federation represents approximately 75% of the commercial flour milling capacity in the United States.

The Millers' National Federation speaks on behalf of its members on matters of general industry concern, including foreign trade. The Export Committee of the Millers' National Federation is charged with direct responsibility for assisting the United States milling industry with its interest in international trade. Flour is exported from more than 15

states through approximately 40 ports on the Atlantic, Pacific, Gulf Coast and Great Lakes and has gone to more than 100 countries in the world.

The Millers' National Federation has been active in international trade matters on behalf of its members since 1952.

The Federation greatly welcomes this Subcommittee's review and oversight of the U.S. GSP program at the midway point of its Congressional authorization. Underscoring our very real concern over the direction and administration of the GSP program is the fact that the Federation presented written briefs and appeared before both the United States Trade Representative and the International Trade Commission within the past few months to oppose those bodies' consideration of the expansion of the GSP list to include items of concern to our industry. These items were: TSUS 131.40 - wheat, milled (flour), fit for human consumption, and TSUS 131.75 - wheat, milled, except flour, not fit for human consumption.

THE GSP PROGRAM SHOULD BE ELIMINATED ENTIRELY

Under Title V of the Trade Act of 1974, the U.S. GSP was authorized by Congress as a temporary, ten-year program. Since the program is designed as a nonreciprocal

tariff-preference measure and thus distorts free and open international trading, Congress wisely limited its duration. Any indication that the United States intends to continue granting new GSP benefits beyond the ten-year limit would be violative of the original Congressional intent and would institutionalize an inherently anti-competitive trading system. For this reason, the Federation submits that the U.S. GSP program should be brought to an end.

The U.S. GSP program has now been in operation for five years. Since the time is soon due for all program benefits to expire, the United States should actually be in the process now of phasing out benefits already granted. At the very least, new extensions of GSP benefits, as recently proposed by USTR with respect to TSUS 131.40 and 131.75, should not be provided at this late date as it would be inconsistent with the Congressional intent that this be a temporary program.

This point is underscored by the President in his own report to Congress on the GSP program. In that report, it is stated that: "The temporary nature of GSP tariff preferences...militate against basing long-term planning and decisions to invest in new sectors on the existence of a GSP tariff preference." Ways and Means Committee Print 96-58, 96th Cong., 2d Sess. 1980, p. 63.

The GSP program was originally designed to temporarily help developing countries expand their exports, diversify their economies, spur the process of development and lessen their dependence on external foreign assistance. If the United States does not signal to the trading world that it fully intends to phase out these temporary nonreciprocal tariff preferences, our trading partners will justifiably assume that such preferences have become a permanent ingredient in our nation's trade structure. This will, of course, be inconsistent not only with the Congressional intent of authorizing a temporary import-relief program, but also with our nation's principal objective in the conduct of international trade; i.e., "a fairer and more open trading system that will benefit U.S. citizens". 24th Annual Report of the President of the United States on the Trade Agreements Program, 1979, p. iii.

PRESIDENT'S REPORT

Pending the phase-out of the GSP program, certain worthwhile modifications should be pursued. In this regard, the "Report of the President on the First Five Years' Operation of the U.S. Generalized System of Preferences" of April 17, 1980 is one of the most comprehensive and rational reports to

Congress on this subject that is known to us. The report itself acknowledges both successes and failures of the GSP program, and suggests possible improvements.

In reviewing the status of the GSP program, we urge Congress to consider three points raised in the President's Report: (1) the need to develop a specific "graduation" policy, (2) the importance of making the U.S. program comparable with the system of other countries; and (3) the sensitivity of U.S. agricultural products to any such program.

I. The Development of a Specific "Graduation" Policy.

The inclusion of a "graduation" principle in GSP seems to be universally accepted. However, we do not believe sufficient progress is being made to develop such a policy. Defining certain developing countries as "least developed" implies that some criteria already exists insofar as "graduation" is concerned. However, to the best of our knowledge, only a very subjective test is implemented which involves the level of a country's economic development, including factors such as per capita gross national product and living standard.

It should be noted that the ten countries benefiting most greatly from our GSP program account for approximately 83% of total imports. Concentration of this magnitude suggests

that some of the less developed countries have now "graduated".

The concept of differential treatment of GSP eligibles has been established. The longer that "graduation" criteria remain unspecified, the greater the likelihood that "graduation" will never be realized. This delay will have the effect of defeating the intent and purpose of GSP. It also creates great uncertainty among eligible and non-eligible countries, both of which have difficulty in developing long range export/import plans without the ability to measure the extent of GSP participation.

II. Failure to Properly Consider Comparability.

The President's report contains a remark to the effect that all commenting countries concurred that the duty free treatment of the United States system was preferable to the systems of the European Economic Community (EEC) and Japan. This provides us with a significant warning that the realization of equitable GSP procedures is imperative. In this regard, the inequity with the EEC is of particular concern to U.S. flour millers since the EEC subsidizes its wheat flour exports to third country markets as set forth more fully below.

Section 1 of Title V of the Trade Act of 1974

authorizing preference requires the President to have due regard for comparable GSP actions by other major developed countries. We believe that the U.S. Government has been remiss in this regard, thus creating situations where trade diversion takes place. The following table is illustrative of the relative attractiveness of the United States, European Community and Japanese markets to GSP eligible countries.

Country	Population (Million)	Private Consumption - \$ Million -	Gross Domestic Product
U.S.	217	1,210,000	1,881,700
EC-9	259	1,015,516	1,714,327
Japan	114	403,692	697,717

Source: IMF Yearbook 1979, data for calendar year 1977.

To the extent that the United States market is the most attractive in terms of economics and in ease of entry under GSP, undesirable trade diversion will be inevitable if the respective GSP programs are not brought into balance. It is for this reason that we strongly endorse the report's suggestion that the United States intends to consult with other

GSP donor countries regarding implementation of the activity. This should be of urgent priority.

III. Importance of Remaining Alert to GSP's Impact on Agriculture.

As between industry and agriculture in the United States, the latter fares less well from the GSP program than does the former. The value of GSP duty free imports of agricultural products in 1976, 1977, and 1978 amounted to from 20 to 23% of the total value of imports of such products. Comparable percentages for industry products were 11 to 12% or about half of that for agriculture.

It is important that Congress continue to monitor this program in terms of its impact on agriculture, an inherent import sensitive industry. This sensitivity has long been recognized in connection with the GSP program. Upon submission of the 1974 Trade Act to Congress the President said: ". . . GSP would allow duty-free treatment for a broad range of manufactured and semi-manufactured products and for a selected list of agricultural and primary products" (emphasis added). The reason for that distinction was that developing countries are generally competitive in developed country markets with respect to most agricultural and primary products.

PROPOSED GSP LEGISLATION MAY NOT BE
BENEFICIAL TO THE AGRICULTURAL COMMUNITY

Pending the phase-out and eventual elimination of the GSP program altogether, the Federation is generally supportive of proposed legislative efforts to modify and improve the present operation of the program. Though we have yet to thoroughly analyze the pending bills, we are deeply concerned that one of the more promising measures, S. 3201, introduced by Senators Heinz and Moynihan, specifically exempts from its beneficial operation all fresh and processed agricultural products. As pointed out above, domestically-produced agricultural products are being greatly affected by the presently-structured GSP system, and it is naturally our desire to see legislative efforts directed toward ameliorating, and not exacerbating, the situation. Moreover, because S. 3201 utilizes the Standard Industrial Classification numbers rather than the TSUS numbers, we are concerned over the potential administrative morass that could well result from such a cross-referencing of import data. It is our intention during the next Congress to follow all such legislation closely with a view toward modifying any proposals not beneficial to agriculture.

GSP AND TRADE POLICY MUST BE COHERENT

One final point should be made on ensuring that the operation of the GSP system is compatible and consistent with our nation's entire international trade policy. As mentioned above, trade does not occur in a vacuum. When duty-free concessions are being considered for certain products imported from developing countries, consideration must also be given to any unfair and discriminatory trade practices being engaged in by those countries or by our other trading partners which affect exports of products from the United States. The granting of such concessions without due regard for those unfair trade practices would send misleading signals to those trading partners and could seriously hamper and possibly negate efforts to end those unfair trade practices.

For example, the Millers' National Federation, through a Section 301 case, is currently in the process of seeking relief through the GATT from the European Economic Community's unfair subsidization of its wheat flour exports to third country markets. Many of those countries which benefit from this subsidization practice are also often GSP-eligible countries shipping some of their products duty-free into the United States. It is inconsistent for the United States to continue granting GSP benefits to the same countries reaping

the benefits of the EEC's illegal subsidization practice which unfairly discriminates against U.S. wheat flour exports.

The Federation greatly appreciates having the opportunity to present its viewpoints on the operation of the U.S. Generalized System of Preferences.

Respectfully submitted,

Wayne Swegle
Wayne Swegle
President

December 5, 1980



MANUFACTURING JEWELERS & SILVERSMITHS OF AMERICA INC.

THE BILTMORE PLAZA HOTEL, KENNEDY PLAZA

Providence, Rhode Island 02903

(401) 274-3840

November 10, 1980

Mr. Tim Bennett, Executive Director
GSP Subcommittee
Office of the United States
Trade Representative
Executive Office of the President
Washington, D.C. 20506

Dear Mr. Bennett:

Thank you for your letter of October 7, 1980, explaining USTR's reasons for the denial of this Association's petition to modify the prospective eligible articles included in TSUS Items 740.11 - 740.15 (effective March 31, 1981).

We have submitted a more precise statement of our view regarding the legality of the subdivision of TSUS Item 740.10 for the reasons stated by USTR. We can find no precedent of USTR dividing a TSUS Item under similar circumstances or for similar reasons to those cited in support of this decision. Hence, in our judgment the subdivision in this instance is without statutory authorization.

In response to the specific points raised in your letter, this Association's position is as follows:

First, we believe the facts submitted in Appendix A of our brief of September 14, 1979 furnish the basis for addressing the issue of escalating gold prices. We maintain that increases in the cost of raw materials during the period in question can in no way be taken as legitimate justification for the subdivision of this article for GSP purposes.

Second, the USTR contention that ... "duty-free imports represented only ten percent of total U.S. imports under Item 740.10 in 1979. Further, imports from GSP countries have been declining as a share of total gold jewelry imports..." totally ignores the fact that U.S. imports of 740.10 increased from \$74.8 million in 1974 to \$516.8 million in 1978. Israel's share of this total rose from .5 percent to 6.5 percent during this period and remained at about that level through the first six months of 1980. Market penetration of all imports of this category increased from 5.8 percent in 1974 to over 25 percent in 1979 and 31 percent in 1980. It is not Israel that has suffered during this period -- it is the American jewelry manufacturing industry.

continued....

Mr. Tim Bennett, Executive Director

-2-

November 10, 1980

Moreover, 1980 figures through June show that duty-free GSP imports increased from 11½ percent (first six months in 1979) to 12½ percent (first six months in 1980) as a percentage of all imports of 740.10. For this same period all imports of this category were down 26 percent while GSP imports were down only 20 percent. Domestic production estimates are that the domestic industry was off by 30 to 40 percent at that time. Hence, the second reason offered for declining our request, "Further imports from GSP countries have been declining as a share of total gold jewelry imported," no longer seems valid.

Third, the highly uneven distribution of imports among the five new TSUS Items through July 1980, ranging from a high of \$84.7 million for 740.1030 to a low of \$1.2 million for 740.1015, suggests the lack of logic in the distinctions drawn by the five new categories. Based on data available through the first seven months of 1980, separate TSUS Items hardly seem justified in several instances.

Moreover, several categories lack a sound basis in industrial logic. For example, if the reasoning behind separating "mixed link" chains is that these are "hand made," the reasoning is false. Many "mixed link" chains are totally machine made in the U.S. and elsewhere. Reexamination of these items seems clearly to be in order.

As you know, we are considering several avenues for the redress of this decision. Thank you for your response to our meeting.

Very sincerely,

George R. Frankovich
Vice President/
Executive Director

GRF/eh

cc Paul Goulding
William Maroni
Lewe Martin
James B. Lennon

NELSON & HARDING

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(605) 348-7250**STATEMENT ON THE PRESIDENT'S REPORT TO THE CONGRESS ON THE FIRST FIVE YEARS' OPERATION OF THE U.S. GENERALIZED SYSTEM OF PREFERENCES (GSP) AND ON PROPOSALS TO MODIFY THE PROGRAM.**

Nelson & Harding represents various agricultural interests which have been adversely affected by the administration of the GSP program. We appreciate this opportunity to comment upon the three bills -- S.3065, S.3066, and S. 3701 -- currently under consideration by this subcommittee which are designed to correct deficiencies in the U.S. Generalized System of Preferences. In addition, we wish to make some general observations on the operation of the GSP program.

For the record, we support the original Congressional intent of the GSP to assist lesser developed nations in expanding their industries by ensuring them access to markets in the United States. In addition to manufactured and semi-manufactured items, a limited number of agricultural and primary products were to be included on the list of items proposed for reduced or duty-free treatment. However, since its inception, the number of agricultural items included on the list has been expanded far greater than the original intent. Our position on this distinction is reflected in the President's statement accompanying the 1974 Trade Act as it was submitted to Congress:

"GSP" would allow duty-free treatment for a broad range of manufactured and semimanufactured items, and for a selected list of agricultural products.

This distinction was intentionally made in acknowledgement that many developing countries are already very competitive in the developed country markets with respect to most agricultural and primary products. These countries do not need the preferential duty treatment on agricultural items afforded them through the GSP. Thus, from its inception, it was intended that the agricultural list be confined to a few selected items, while the industrial list would include a broad range of products with only limited exceptions.

GSP STATEMENT/PAGE TWO

As part of the original GSP program, Congress established competitive need limits on imports to protect the directly competitive U.S. industries. However, the burden has been placed on the domestic industry to prove injury in a wide range of areas: production, trade, patterns of demand, sales, inventories, wages, prices, investment, etc. It is becoming increasingly difficult for U.S. agricultural producers to "prove" that injury will result from zero duty treatment on a particular item. This broad scope of injury determination places a great hardship upon the agricultural producers as they do not have direct access to the necessary information that would enable them to make the required economic forecasts. Even if they could acquire such information, complex economic forecasts of injury often require a "crystal ball" to make the prediction.

In a move to protect the domestic agricultural producers, we recommend that once an item has been rejected from the GSP petition, it should not be allowed back onto the list for at least a five year grace period, so as not to force domestic producers to return every six months and redemonstrate that inclusion of the particular item on the GSP list would cause serious injury.

We disagree with the concept of the so-called "basket categories" into which an unspecified number of loosely related items may be placed. It is increasingly difficult to determine the exact nature of these "basket categories," as even the United States Customs Service has stated its difficulty in pinpointing a certain item contained in a "basket category." Another serious problem arises when a country petitions for one item contained in a "basket category," and then is granted a reduction in duty for all the items contained. This practice has placed an undue hardship on the U.S. agricultural producers as they are forced to defend an entire category containing an unspecified number of items. This problem has become increasingly difficult to monitor, therefore, we recommend that a classification method be devised which eliminates these overly broad and confusing categories.

We have a fundamental objection to the State Department and Special Trade Representative acting as agents of foreign governments wishing duty reduction on various items. These agencies should not continually prepare their own lists of items to be considered for possible duty reduction, but should wait to act until such time as the items are requested by the developing countries for preferential treatment. We do not believe that the lesser developed countries have a demonstrated need for this type of service, and it should be discontinued.

Finally, as Senators Chafee, Heinz, and Moynihan have pointed out in S.3065, S.3066, and S.3201, many of these beneficiary developing countries -- Mexico, Israel, and Brazil, among others -- are fully capable of competing with the developed countries in agricultural products, and therefore, do not require reduced or duty-free treatment for these items. As Senator Chafee has stated, "Does it make sense that the most developed of the developing -- the countries with the most advanced and competitive

GSP STATEMENT/PAGE THREE

economies -- should receive most of the benefits of this program?" These countries are already highly competitive with the United States in agricultural production and trade, and further duty reductions in this area will only serve to support foreign agricultural production at the expense of the American farmer.

We support in principle, the bills designed to correct the deficiencies in the GSP which are currently before the Committee. We believe that GSP may have had some benefit for the manufactured and semi-manufactured industries, but in the agricultural sector, it appears to have completely overstepped original Congressional intent limiting it to "selected" entry into this area. We applaud the efforts of this subcommittee in its attempt to correct the many problems that have surfaced with the GSP. We support the basic premise of the GSP, but changes must be made in the program to fulfill a fundamental mandate: to protect the directly competitive U.S. industries from an increasingly one-sided trade policy.



OPTICAL MANUFACTURERS ASSOCIATION

1901 NORTH FORT MYER DRIVE • SUITE 1104 • ARLINGTON, VIRGINIA 22209 • (703) 626-3514

November 11, 1980

The Honorable John Chafee
United States Senate
Washington, D.C. 20510

Dear John:

Thank you very much for the copy of your legislation to reduce the amount of dutyfree GSP imports. This proposal is a major step toward correcting the inequities in the current system.

We especially applaud and support Section II, which would disallow GSP treatment to any country having a trade surplus with the U.S. This would currently apply to Hong Kong, Korea, and Taiwan, the three largest exporters of eyeglass frames into this country.

We recognize that many of the provisions in this proposal are designed to help the jewelry industry, which has been severely impacted by GSP imports. To make the legislation more meaningful for smaller industries, such as the frame and lens industries, we would respectfully ask you to consider the following changes:

Section III - Eligible Articles

This section currently would remove an article from the preference list if total duty-free imports of the article exceed \$250 million or 50 percent of total imports during four consecutive quarters. We believe that these figures are unrealistically high for low value items such as frames and lenses and suggest that the percentage figure be reduced to 25 percent, and it be calculated in terms of quantity or value, whichever is higher. A 25 percent share of imports is quite substantial in our industry and impacts heavily upon us.

The Honorable John Chafee
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Again, we appreciate all your efforts to get the optical industry off the "endangered species" list and we will continue to support your efforts as in the past. We would ask that you give the above suggestion serious consideration as your proposal moves through the legislative process.

Thank you again for your continuing interest and support.

Cordially,


Curtis W. Rogers
President

CWR:ba

socmaSYNTHETIC ORGANIC CHEMICAL MANUFACTURERS ASSOCIATION, INC
1612 K STREET N.W., SUITE 308, WASHINGTON, DC 20006 • (202) 659-0060

November 24, 1980

Mr. Michael Stern
Staff Director
Committee on Finance
Room 2227
Dirksen Senate Office Building
Washington, DC 20510

Re: The Generalized System of Preferences Program

Dear Mr. Stern:

In connection with the hearing to be held by the Subcommittee on International Trade of the Committee on Finance on November 25, 1980, on the President's Report to the Congress on the First Five Years' Operation of the U.S. Generalized System of Preferences (GSP) and on proposals to modify the program, the Synthetic Organic Chemical Manufacturers Association, Inc. (SOCMA) submits this written statement for consideration by the Subcommittee and inclusion in the record of the hearings.

SOCMA is a non-profit trade association comprised of 111 manufacturers of organic chemicals, the majority of which are companies with annual sales under \$50 million. The members of SOCMA produce more than 5,000 distinct synthetic organic products. Most of these products are intermediates and finished chemicals for industrial use. They include dyes, pigments, flavor and perfume materials, surface active agents, fire retardants, plasticizers, rubber processing chemicals, and medicinals. The products of the organic chemical industry are essential to many other industries, including agriculture, textile, paper, steel, automobiles, rubber and ink.

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SOCMA has reviewed the President's Report and, in general, favors the changes to the GSP Program recommended in the Report. In particular, SOCMA is pleased to note that the Report has adopted some of the suggestions for change which SOCMA recommended last year to the Special Representative for Trade Negotiations' GSP Subcommittee. Specifically, SOCMA suggested and the Report proposes: (a) a revised annual review schedule to allow interested parties additional time to prepare support and rebuttal briefs for interagency consideration; and (b) limiting GSP benefits given to more developed beneficiaries for particular products in which they have demonstrated competitiveness.

SOCMA also notes the statement in the Report that the President will exercise his authority to ensure "graduation" of more industrialized developing countries from the GSP program. The Report states that, in exercising this authority, the President will take into account the development level of beneficiaries, their competitive position in the product concerned and the overall economic interests of the United States. However, these factors are very broad and vague and offer no assurance that the process of "graduation" will be implemented in appropriate cases.

SOCMA suggests that criteria be developed for incorporation into the GSP legislation which would mandatorily trigger active consideration of the need for such graduation. Examples of "triggering criteria" should include readily identifiable indicia such as: a country's balance of trade with the United States, or a country's per capita income or per capita gross national product. The "triggering criteria" could be expressed in the alternative, so that if any one of the criteria were met, the process of active consideration would be mandated. Such "triggering criteria" would be easy to apply and would insure that the process of "graduation" is undertaken when a beneficiary country reaches an identifiable level of development, rather than relying upon the broad generalizations concerning graduation appearing in the Report.

In view of the foregoing, SOCMA endorses in principle the proposals embodied in S. 3165 and S. 3201 insofar as those proposals will have the effect of denying GSP benefits to foreign industries that do not need such preferential access to the U.S. market and to articles which are being dumped or subsidized. However, SOCMA suggests that the Subcommittee on International Trade should examine the graduation proposals in these bills with considerable care to determine whether in fact those proposals will result in graduation of countries or

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products which no longer deserve the benefits of GSP. In particular SOCMA is concerned that the product sector proposals contained in S. 3201 may be too broad to achieve the desired graduation results for most products.

Respectfully submitted,


Stephen J. Kasprzak
Assistant Director

STATEMENT FOR THE RECORD BY THE CANNERS LEAGUE OF CALIFORNIA
FOR UNITED STATES SENATE COMMITTEE ON FINANCE
SUBCOMMITTEE ON INTERNATIONAL TRADE
REGARDING HEARINGS TO REVIEW THE
U. S. GENERALIZED SYSTEM OF PREFERENCES
NOVEMBER 21, 1980

The Cannery League of California requests that the following statement be entered into the printed record of the hearing of the Finance Subcommittee on International Trade to review the U. S. Generalized System of Preferences (GSP).

The Cannery League of California is a non-profit trade association located at 1007 "L" Street, Sacramento, California 95814, telephone (916) 444-9260. Its 31 members produce approximately 85% of the canned foods processed in California. The California canning industry annually packs in excess of 200 million cases of canned fruits and vegetables, which is approximately 35% of the nation's supply of these commodities. The factory value of this pack is estimated at over \$24 billion. The industry employs upwards of 60,000 workers during the peak processing season.

GSP PETITIONS SHOULD BE FOR SPECIFIC PRODUCTS

Many tariff descriptions in the TSUS are broad and do not identify products specifically within each TSUS Tariff presentation. In order that proper public notice of GSP petitions is given, a distinction should be made in the STR Regulations between an "article" and a "product". This is especially true with respect to "basket classifications" (those including the initials "n.s.p.f." or "n.e.s.", or the word "other"). We would suggest that the STR Regulations be amended to require:

1. Each petition for GSP treatment identify the "product(s)" as well as the "article" for which GSP treatment is requested.

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2. Each petition for GSP treatment not identifying the "product(s)" as well as the "article" be returned to the petitioner as unacceptable.
3. The STR Public Notice of GSP petitions accepted for review should identify the "product(s)" as well as the "article" for which GSP treatment is being considered.

The so-called "basket categories" create an additional problem in responding to GSP Notices since import statistics for a specific item are not available. Such statistics are necessary for the products requested if the true picture of the effects of the imports is to be shown.

We brought this problem to the attention of the GSP Subcommittee of the Trade Policy Staff Committee at a hearing held in Washington, D.C., September 18-21, 1979. It is apparent that our pleas have gone unheeded. For example, in the August 20, 1980 Federal Register listing, Case No. 80-11, Item 137.8782 appeared to cover whole frozen asparagus. It is our understanding, however, that the petitioner only desired to have duty-free treatment on water chestnuts, a commodity in which we have no interest, but since water chestnuts are included in the "basket" category, which also includes whole frozen asparagus, the entire item could be affected. The same "basket" problem applied to the proposed GSP treatment for fruit mixtures (TSUS 150.05). Included in this category are "mixtures of two or more fruits in air-tight containers, containing, inter alia, apricots, citrus fruits, peaches, pears, and possibly other fruits". The petitioner in this case was requesting duty-free treatment for "citrus salad" and "fruit salad". Approval of the petition will allow peaches, pears and other deciduous fruits that form all the

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various combination fruit mixtures within TSUS 130.05 duty-free entry into the United States. If the "citrus salad" was defined and broken out, domestic producers in this state would be relieved of the need to protect their interest from the possible negative impact of inclusion of TSUS 105.05 on the GSP eligibility list.

TIME ALLOWED FOR RESPONSE BY AFFECTED INDUSTRY

STR Public Notices of Petitions for GSP treatment accepted for review are generally published in the Federal Register three to four weeks prior to the public hearings. It is essential that the length of time between publication of the notice and the dates by which written briefs are due and public hearings commence be extended. Examples of the short time in which industry may respond are as follows:

1. A GSP Notice was published in the Federal Register of October 17, 1977, with the deadline for written briefs on November 10, 1977, and the public hearing was held November 14, 1977.
2. A GSP Notice was published in the Federal Register of August 21, 1978, the deadline for written briefs was September 11, 1978, and the public hearing was held September 18, 1978.
3. A GSP Notice was published in the Federal Register of August 20, 1980, with a deadline for written briefs on September 18, 1980, and the public hearing was held September 29, 1980.

We believe that the above examples stress the fact that more time must be allowed for response by domestic industry. A 60-day time period between the Federal Register notice and the date for submission of written views or oral presentations would be absolutely minimum. The petitioning country

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has adequate time to prepare, but domestic industry is hard-pressed to develop the necessary presentation, statistics and documentation.

This critically needed change in the GSP program was also stressed at the Trade Policy Staff Subcommittee hearing in Washington, D. C. in September 1979, but was evidently ignored.

NEED FOR TIME TO BE ESTABLISHED BETWEEN REQUESTS

Further amendment should provide that no petition for GSP treatment be accepted for review which was the subject of an earlier review, unless at least two years have elapsed. Such a limitation is needed to avoid the necessity for domestic industry to respond to petitions for GSP treatment on the same or similar products year after year. Such a limitation should be applicable to the "product(s)" without regard to the identity of the petitioner. There is precedent for such a limit in Section 201(e) of the Trade Act of 1974, providing that no USITC investigation under Section 201 shall be made with respect to the same "subject matter" as a previous investigation, unless one year has elapsed. For products not designated as eligible for GSP treatment there is no justification to reopen the same question unless a sufficient period of time has passed in which circumstances may have changed.

INTENT OF LEGISLATION ESTABLISHING GSP TREATMENT

In establishing the GSP procedure we believe that it was intended to assist the developing nations in the sale of their industrial products. In recent years agricultural products have become the principal target of petitioners for GSP treatment. We believe that developing nations should be informed of the Congressional intent of the U. S. GSP system and

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agricultural products be scrutinized with great care before a petition is accepted.

Legislative intent appears to have been summarized in the President's message to the Congress, as reported in the Committee on Ways and Means Press Release, which includes the message from the President. It reads, in part, "This legislation would allow duty-free treatment for a broad range of manufactured and semi-manufactured products, and for a selected list of agricultural and primary products which are now regulated only by Tariffs". In addition, the Foreign Agricultural Service, U. S. Department of Agriculture, in its July 1978 publication on GSP states what we believe to be the intent of the legislation. It is as follows:

"Eligibility of articles is set forth in Section 503. Manufactured, semi-manufactured and selected agricultural products that are not determined to be import-sensitive are eligible. A product is defined as being sensitive if the granting of GSP would increase imports to a level that would be detrimental to U. S. producers of like or similar products."

If a GSP request is made for an agricultural product which is produced in adequate quantity to supply the U. S. Market, it would appear to us to be import-sensitive. We firmly believe that Congress should prohibit GSP treatment on import-sensitive articles and should establish criteria by which to identify import sensitive articles to be excluded from the program. There is a desperate need for sound criteria to assist the TSPO in evaluating the "adequacy" of petitions.

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CONCLUSION

We have urged changes in the program as noted above, and we will continue to do so with the hope that domestic industry will some day be relieved from the burden and expense of responding to so many requests that affect the economic well-being of the California food processing industry.

We appreciate the opportunity to comment on the GSP operation, and we look forward to a thorough review and revision.

Submitted by:

Lawrence K. Taber
President
Canners League of California
1007 "L" Street
Sacramento, California 95814
(916) 444-9260

Statement of Manos del Uruguay

Manos Del Uruguay ("Manos") respectfully submits this Statement in connection with the hearings held on November 25, 1980 by the Subcommittee on International Trade of the Senate Finance Committee, to consider the operation of the Generalized System of Preferences ("GSP"). Manos wishes to bring to the Subcommittee's attention its experience in petitioning for GSP treatment of its handicraft products.

Manos del Uruguay is a nonprofit association of artisans who spin, dye, knit and weave pure virgin wool by hand. More than 1,000 artisans make up the various groups and cooperatives which constitute the Manos Association. These artisans are mostly farm women working in their homes using traditional Uruguayan handicraft techniques to make woolen yarn, rugs, wall hangings, scarves, sweaters and hats.

Manos, through its Montevideo service center and regional organizations, provides raw wool and looms to the cooperatives and technical instruction and assistance to the artisans. In this manner, Manos is able to extend a source of livelihood through handicrafts to people living in rural areas whose opportunities

for gainful nonagricultural employment could otherwise be severely limited. Manos also offers educational and cultural opportunities to its membership.

On June 21, 1979, Manos submitted petitions for treatment of its products under the Generalized System of Preferences to the GSP Subcommittee of the Trade Policy Staff Committee in the Office of the Special Representative for Trade Negotiations (now the Office of the United States Trade Representative). These petitions covered a wide range of Manos' handicraft products, including rugs, scarves, hats, sweaters, blankets and curtains, as well as the handspun hand-dyed yarn which is Manos' basic product. Only three items, the handspun yarn (TSUS No. 307.64(pt.), now redesignated 307.68(pt.); Case No. 79-24) and two types of rugs (TSUS Nos. 361.15 and 361.44; Case Nos. 79-31 and 79-32) were accepted for consideration for GSP treatment. No official explanation was given for the failure to accept the other items for consideration.

Manos presented oral testimony and submitted a written statement in favor of granting GSP treatment for the yarn and the rugs before the GSP Subcommittee. All three items were referred for further investigation to the International Trade Commission ("ITC"). Manos

again presented oral testimony and a written statement, this time to the ITC. In March 1980, Manos learned that its petitions had neither been accepted nor rejected, but had been placed in a pending category. Despite repeated inquiries, Manos did not hear anything further about the progress of its petitions until it was informed by the August 15, 1980 issue of the Federal Register that its petitions remained in a pending status.

Recently, the Office of the U.S. Trade Representative has stated that, in accordance with the policies behind the GSP program, "a special effort will be made to include on the GSP list products of special export interest to low income beneficiaries, including handicraft items." 45 Fed. Reg. 55,668 (Aug. 20, 1980). The items for which Manos has sought GSP treatment for over a year are all handicraft items produced by low income artisans in the rural areas of Uruguay. Because Manos is an association of cooperatives of local artisans, a reduction in tariff for any of these handicraft items would directly benefit the artisans themselves. Thus, Manos' handicraft products are precisely the type of items which seem most suitable for GSP treatment and the Manos artisans are the type of people who should benefit from the program.

The products which are the subjects of Manos' outstanding petitions -- especially the handspun, hand-dyed yarn which is the basic product of the Manos artisans -- do not represent a competitive threat to United States industry. Only two GSP-eligible countries, Uruguay and Peru, export handknitting and fancy wool yarns on a regular basis to the United States. In 1978, these countries accounted for only 14 percent of the imports in these yarns. Neither country has experienced a sustained increase in exports of yarn to the United States since then.

Manos del Uruguay is the only exporter of Uruguayan handspun yarn to the United States. This handspun, hand-dyed yarn, produced through the traditional Uruguayan handspinning technique, is different in texture from yarn produced anywhere else. This Uruguayan yarn is kinky and gnarled; it is thick in some places and thin in others. Yarn dyed by the traditional Uruguayan hand technique has a unique striated, or uneven, color pattern.

Manos does not sell the Uruguayan yarns in bulk to be knitted into mass-produced sweaters and other garments. Rather, Manos, sells approximately 80 to 85 percent of the yarn it exports to this country to retail stores specializing in selling yarns and other

materials to home weavers and knitters, and to independent artisans. Nearly all of the remainder of Manos' sales in the United States are made through direct mail to independent crafts people.

Because of its unique physical appearance, Manos' Uruguayan yarn does not compete with yarn produced in the United States, either for machine or handknitting. The Uruguayan yarn is used to make garments or other articles which reflect the distinctive appearance of the yarn itself. Uruguayan handspun yarn is readily distinguishable from the uniform American machine-spun yarn, which is more readily usable for commercial knitting and weaving, and even for most handknitting applications.

Imports of wool yarns, and wool handknitting and fancy yarns in particular, have been lower in the past year and a half than in the immediately preceding period. Imports in 1979 alone were lower than any year since 1975. Wool handknitting and fancy yarn imports -- which include the type of handspun yarn made by Manos -- in the first half of 1980 remained at the low 1979 level. From current information, it appears that 1980 imports of all types of wool yarns will remain well below 1978 levels.

By contrast, United States production of hand-knitting yarns has increased dramatically in recent years. Production in 1978 was 119 percent greater than in 1974. Moreover, most United States manufacturers have turned increasingly to synthetic fibers, mainly acrylics, rather than more expensive wool to produce machine-made handknitting yarns. Uruguayan exports, at the same time, have suffered due to the high price of wool, high customs duties and Uruguay's high inflation rate. In fact, total import share of the market for wool handknitting yarns declined in both 1978 and 1979.

A unique handicraft product such as handspun, hand-dyed yarn seems ideally suitable for GSP treatment. By approving GSP treatment for such a product, the United States would be supporting practitioners of a folk art in developing nations, without adverse impact on any United States industry. In the case of Uruguay, approval of GSP treatment for handspun yarn would promote cooperatives of local artisans and enhance the economic lives of these artisans. Nonetheless, no action has been taken on this petition or any of Manos' other petitions in over a year.

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