S361-18

TRADE ACT OF 1970

Amendments 925 and 1009 to H.R. 17550

SOCIAL SECURITY AMENDMENTS OF 1970

HEARINGS

AND INFORMAL PROCEEDINGS

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

NINETY-FIRST CONGRESS

SECOND SESSION

ON

Amendments 925 and 1009 to H.R. 17550

AMENDMENTS TO INCORPORATE THE TEXT OF THE TRADE ACT OF 1970

OCTOBER 9 AND 12, 1970

(Part 1 of 2 Parts)

Oral Testimony

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TRADE ACT OF 1970

Amendments 925 and 1009 to H.R. 17550

Social Security Amendments of 1970

FRIDAY, OCTOBER 9, 1970

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

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

Present: Senators Long, Anderson, Talmadge, Fulbright, Byrd, Jr., of Virginia, Williams of Delaware, Bennett, Miller, and Hansen.

The CHAIRMAN. The hearing will come to order.

Today we will take testimony on foreign trade amendments Nos. 925, and 1009 proposed to the Social Security bill.*

Generally speaking, these amendments would establish import quotas on textiles and shoes and make certain other changes in our tariff and trade laws.

Several Senators, including some on this committee, have indicated that all or part of the House trade bill will be offered as an amendment to the Social Security legislation which the committee is marking up in executive session.

This hearing will acquaint members with this legislation and help us understand the administration's position on it.

Our administration witnesses this morning will be the President's Special Trade Representative, Carl J. Gilbert, Under Secretary of the Treasury Paul A. Volcker, and Assistant Secretary of the Treasury Edwin S. Cohen. On Monday we will hear from the Secretary of Commerce, Maurice H. Stans, and the Secretary of State, William P. Rogers.

Mr. Gilbert, we are pleased to have you before us and invite you to proceed.

STATEMENT OF HON. CARL J. GILBERT, SPECIAL TRADE REPRESENTATIVE OF THE PRESIDENT

Mr. GILBERT. Thank you very much.

Mr. Chairman, and members of the committee, I welcome the opportunity to appear before you today to begin the presentation of the views of the administration on H.R. 18970 which has been introduced in the Senate as an amendment to another bill before this committee.

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*The text of these amendments appear as app. A, vol. 2, p. 963.

ADMINISTRATION'S PROPOSAL

Let me begin by reviewing in summary fashion with you the administration's original proposals. They still appear to be sound.

Today, they are even more urgently in need of implementation by the Congress than they were a year ago when the President submitted them.

These modest proposals were not designed to provide the basis for any major new initiatives. Rather, they were designed to adapt our trade legislation to the changes occurring since the Congress last dealt with foreign trade policy in 1962.

These proposals were developed after an intensive review by this administration of the policies this country has consistently followed since 1934, of the problems that changes in foreign trade and competition have brought in recent years, and of our needs to meet these changing circumstances.

The result of this reexamination was a decision to continue to pursue the same objectives while, at the same time, providing better means of taking care of our own interests—the interests, on the one hand, of those American industries, firms, and workers which have been adversely affected by the pressure of import competition and, on the other hand, the legitimate interests of our exporters in access to foreign markets on a fair and equitable basis.

The administration's first proposal was to provide a significant improvement in the means by which industries can obtain relief from injurious import competition. It proposed that the test be as simple and clear as possible. Relief should be available whenever imports are found to be the primary cause of actual or threatened injury. It proposed that the further test in the present law, that increased imports also be found to have been caused by a past tariff concession, be dropped. This has been the stumbling block which prevented consideration of relief in 14 of the 17 cases brought under the present statute. These changes would put the emphasis where it properly belongs—have imports been the primary cause of trouble to an American industry? They would make the escape clause a realistic and workable avenue for relief.

The second proposal which we thought was very important, of course, was to provide greater liberalization of the criteria of the present law for determining relief for individual firms and workers.

The third proposal was to equip the President with modest tariff-reducing authority. The previous authority delegated to him by the Congress expired in 1967.

Since then he has been without authority to engage in even minor adjustments to fulfill our obligations or to otherwise take action where it would be in our interests to do so. This request was not designed for use in any major negotiations, for none is contemplated in the immediate future.

The fourth proposal was to provide the President with the authority to eliminate the American selling price system of customs valuation and to carry out the supplementary agreement on chemicals. ASP, in our opinion, is an obsolete, unfair, and unnecessary provision of the present law which has the further effect of placing a disproportionate burden upon our ability to seek fair treatment and to advance our own commercial interests abroad.

Since the agreement involved was negotiated by the previous administration, its provisions were subject to careful review before this proposal was made. It is our judgment that its implementation will not adversely affect our interests but, rather, bring reciprocal reductions in foreign chemical tariffs and in other barriers to our trade. The industry involved is not at a disadvantage in world competition but, instead, is one of our major exporters with a large, $2.2 billion trade surplus. It is not in need of the extraordinary protection this system affords. The rates agreed to will, in our opinion, still provide adequate tariff protection for the industry and its employees.

The fifth proposal was a request that the Congress join in the task of dealing with other nontariff trade barriers. This is a complex area, as you know, where unlike tariffs, delegations of negotiating authority, from the Congress to the executive, are extremely difficult to formulate and where, in many cases, both the roots and the solutions are to be found in purely domestic concerns and legislation. As such, their removal would often require specific legislative action, even though the nature of such action in many cases could not finally be clear until actual negotiations develop what is possible and what price might be involved.

For these reasons, the President has stated that he would welcome a statement of congressional intent which would greatly support our efforts to come to grips with the problems ahead in this area.

The sixth and final original proposal was to strengthen our hand when our interests are treated unfairly abroad. It provides for better means to take effective action when we are confronted with illegal or unjust restrictions on our exports.

Since the original proposals were made, the administration has endorsed three additional provisions. After a long effort to obtain a negotiated solution to the situation caused by substantial increases in imports of textiles and apparel proved to be unsuccessful, the administration reluctantly, but unreservedly, endorsed the alternative solution of mandatory quotas.

The administration further proposed a series of amendments to the Internal Revenue Code of 1954 permitting the establishment of Domestic International Sales Corporations. Finally, it also proposed amending certain provisions of the Automotive Products Act of 1965.

H.R. 18970 incorporates certain of these proposals as well as others originating in the Ways and Means Committee which the administration also considers desirable. Taking them in the order in which they now appear in the bill, the administration supports the following:

Section 101, involving tariff reduction authority. I will return to this provision later because it should be pointed out that if certain other provisions remain in the bill, this authority may prove to be inadequate.

Section 102, involving staging of any reductions made under the authority of section 101.

Section 103, involving foreign import restrictions and discriminatory acts, amending section 252 of the Trade Expansion Act. This provision incorporates both the recommendations made by the administration and certain others added by the Ways and Means Committee which are also acceptable.

Section 111, involving petitions for both tariff adjustment and adjustment assistance. The administration supports only those provisions dealing with adjustment assistance. More on that later.

Section 112, involving Presidential action with respect to adjustment assistance.

Section 114, involving authority for orderly marketing arrangements.

Section 115, involving increased assistance for workers.

The administration supports making all reemployment-related services available, but is concerned about the increased level of allowances provided for budgetary reasons.

Title II, sections 201 through 211, dealing with quotas on certain textiles and footwear articles. The administration supports the provisions of this title with two major exceptions. It does not support any inclusion of footwear and it questions whether the provisions of section 205(a) dealing with the rulemaking provisions of the Federal Administrative Procedure Act are wise. Further on those provisions of the act which the administration supports, section 301 dealing with the Antidumping Act.

Section 302, dealing with countervailing duties.

Section 311, dealing with the membership of the Tariff Commission, with the exception of section 311(c), which eliminates the old section 330(d) which gave the President power to break a tie, in effect.

Section 321, dealing with authorization of appropriations for the U.S. share of the expenses of the General Agreement on Tariffs and Trade.

Section 341, dealing with amendments to the Automotive Products Act of 1965.

Section 342, dealing with certain classifications to be made by the Secretary of Agriculture.

Section 346, dealing with trafficking in certain drugs.

Title IV, section 401 through section 408, dealing with the establishment of Domestic International Sales Corporations.

The administration does not support the following provisions of the bill for the reasons I will indicate:

TARIFF-CUTTING AUTHORITY

As I mentioned earlier regarding section 101, the administration supports the authority to reduce tariffs by 20 percent or 2 percentage points. The administration considered this authority to be sufficient in light of its original proposals.

However, any excessive relaxation of the escape clause, together with quotas on footwear and other provisions, would result in widespread tariff increases and other import restrictions. If these additional provisions are enacted, it appears likely that tariff reducing authority might need to be enlarged perhaps to as high a figure as 50 percent in order to maintain our international obligations.

I should say this matter is under continuing study and as we learn more about it we will keep the committee informed.

NATIONAL SECURITY

The national security provision of the House bill, section 104 would require that action by the President to adjust imports after national security investigations take only the form of quotas.

In some cases and under some circumstances, however, solutions other than those involving quotas might be more appropriate and effective measures. Where the national security is involved, such options, in our opinion, should not be foreclosed. The administration is, therefore, opposed to this limitation on the President's discretion in future cases.

RELIEF FROM IMPORT INJURY

Section III relaxes the criteria for determining serious injury in escape clause and adjustment assistance cases. The administration supports the amendments for adjustment assistance but strongly opposes most of the escape clause proposals.

Let me mention but five arguments against this now complex and possibly dangerous provision:

1. In the first place, unnecessary import restrictions are costly to the doméstic economy and to our international relations. For the escape clause test, therefore, increased imports should be the primary cause of serious injury, not merely a factor that contributes substantially toward causing serious injury, as is provided in the House bill. The latter is an insufficient standard for an action involving various aspects of the national interest. It is excessively loose and unnecessarily vague.

2. The "additional determination" of subsection (b)(5) involves the use of an arbitrary statistical formula which should not be relied upon, in our judgment, as a substitute for the application of reason and judgment to all the relevant facts.

Competitive problems and conditions vary widely from industry to industry, and any formula of this type produces results which may bear little relation to the legitimate needs of different industries or the broad interests of the economy. The other criteria of this subsection are basically factors which should properly be considered in the initial injury investigation. There is, in short, no need for this so-called additional determination.

3. Moreover, this "additional determination" would be made only by a majority of those Commissioners finding injury, in effect, by a majority of a majority or as few as two Commissioners.

4. The determination of the nature of import relief under the bill would also be made by a majority of the Commissioners who had found injury—again a majority of a majority. Such determinations should rest on a broader base, namely a majority of the Commissioners voting in the investigation, as current law now requires.

5. A remedy determination involving such severe action as quotas, coming after an affirmative, so-called additional determination, would be even more objectionable since it would be virtually mandatory on the President. It would be mandatory even though as few as two Commissioners might have voted for that remedy and the majority participating in the investigation had not supported it. Under these circumstances, the only option available to the President would be to invoke the national interest.

I should add also that the administration feels strongly against the basic slant towards quotas inherent in this proposal and also is concerned about the risk of emulation by foreign governments of such a mathematical standard which applied to some of our more successful areas of export could raise serious problems for us.

Section 113 dealing with tariff adjustment would require the President to proclaim the remedies determined by the Tariff Commission after an affirmative "additional determination," unless he determined such action would not be in the national interest. This, in our judgment, is an unwise and unnecessary impairment of the President's existing flexibility. Moreover, in some cases it could even prove to be unfair to domestic industry.

Most decisions the President must make on foreign trade matters involve a complex of national interest considerations. This provision would force him to make a "yes" or "no" decision on sensitive and difficult issues. Thus, the President might actually have to deny relief to an industry which the Tariff Commission had found to be seriously injured, if a majority of the Commissioners had specified a form of remedy which he did not believe was acceptable.

If existing flexibility were retained, the President would be able to work out a solution accommodating both the needs of the injured industry and the national interest.

This section also requires the Tariff Commission to include a sort of "peril point" findings in its reports on termination of escape clause actions.

The concept that is being revived here was abandoned by Congress in 1962 because, as I understand it, it had proved unrealistic in actual operation.

FOOTWEAR QUOTAS

This administration strongly opposes the inclusion of nonrubber footwear under the quota provisions of title II. It reluctantly endorsed these provisions as they apply to textile articles after having made every effort to obtain a negotiated solution. The special circumstances involved in the problems of the textile industry which led to this decision will be discussed in detail with you on Monday by Secretary Stans.

The administration does not believe, however, that import restraints, across the board, are the answer to the problems facing those firms in the nonrubber footwear industry experiencing difficulties. The President approved a comprehensive program to provide assistance to those firms.

The President has also initiated an escape clause investigation by the Tariff Commission. If the amendments to the escape clause and adjustment assistance criteria proposed by the administration are enacted while this investigation is in progress, they will, of course, apply to the Commission's determinations.

The provisions of the administration's nonrubber footwear program should meet the needs of those segments of this industry experiencing difficulties. Their problems, however, in our judgment, are not industrywide. On the basis of the formation developed by an executive branch task force, copies of which have been made available to the members of the committee, there are not sufficient grounds for imposing quotas.

RULEMAKING PROVISIONS OF ADMINISTRATIVE PROCEDURE ACT

The administration questions the wisdom of the application of the rulemaking provisions of the Administrative Procedure Act to certain actions to be taken under section 205(a). For the most part, those actions involve complicated determinations on foreign trade matters requiring broad presidential discretion and, in some cases, timely action.

The application of the potentially time-consuming and cumbersome rulemaking provisions could create unacceptable uncertainties and delay. Further, the present law provides reasonable opportunities for interested parties to present their views on trade matters and these procedures will be appropriately supplemented by executive order.

TARIFF COMMISSION MEMBERSHIP

Section 311 of the House bill repeals section 330(d) of the Tariff Act of 1930 allowing the President to make the determination in case of a tie vote by the Commission. The administration opposes this provision because tie votes can still occur, even if the membership of the Commission is enlarged to seven, as the House proposes.

AMERICAN SELLING PRICE SYSTEM OF VALUATION (ASP)

The administration is opposed to eliminating ASP in the manner provided in section 331 of the House bill. The provisions of this section unduly restrict the ability of the President to bring about this action. ASP should rather be eliminated in the fashion proposed in the administration bill, that is, through congressional authorization to the President to proclaim the two agreements concluded as a part of the Kennedy round of tariff negotiations.

MINK FURSKINS

The administration opposes subsection (a) of section 343 of the bill which places a tariff quota on imported mink skins and establishes the 1970 rate levels as the permanent rates for dressed mink skins and mink clothing. Imports of mink skins have been declining since 1966 and in 1969 were lower than in any year since 1960. Domestic production was at a record high in 1968, but declined to the 1965–66 level in 1969. U.S. exports, however, reached a record high in 1969 and are about 44 percent as large as imports. If import relief is warranted for this industry, it should be provided after a full investigation and evaluation under the escape clause.

Through an inadvertence, moreover, the provisions of the bill require each piece of imported mink to be counted as a mink skin. Since some of the imported mink plates, as they are called in the trade, have as many as 20,000 pieces, some smaller than a cigarette, imports of only 230 plates of that type could fill the entire tariff quota.

Subsection (a) also freezes the Kennedy round reductions on dressed mink skins and mink clothing at the 1970 levels, thus requiring the United States to make compensatory concessions to affected countries.

REPEAL OF EMBARGO ON SOVIET FURS

Subsection (b) of section 343 removes the embargo on imports of certain furs, including mink, from the Soviet Union and Communist China. The present embargo, however, does not apply to imports of clothing made from the same furs from those countries. Some of these furs, namely ermine and kolinsky, are produced only in the Soviet Union and North Korea. Domestic furriers are placed at a disadvantage in not having access to Soviet furs but must compete with imported coats made of such furs. Imports from Communist China and North Korea would not be affected by the bill, of course, since they are under Foreign Assets Control Regulations. The administration does not oppose this section of the bill provided certain adjustments are made to the column 2 rates.

GLYCINE

The administration opposes section 344 of the bill, which places a tariff quota on imports of glycine and certain related products and increases duties.

There is only one domestic producer of glycine, and consumption may increase significantly as a result of the ban on cyclamates. Though data on imports are not available, a study of invoices indicates a decline in 1968.

Antidumping duties have also been imposed on imports on glycine and related products from France.

The administration considers that this product is a proper subject for a Tariff Commission investigation if a drastic curtailment of imports is to be considered.

In summation, Mr. Chairman, there are many good provisions of this bill which the administration supports and supports wholeheartedly. There are others which it cannot support and some whose implications and future effects can only dimly be foreseen at this point.

I urge the committee to modify the bill in accordance with the recommendations I have made this morning.

The resulting bill will then meet our basic trade policy needs and will further all of our national interests.

The administration urges the enactment, therefore, of its proposed trade bill, H.R. 18970. However, no voluntary restraints on textiles and apparel imports having been thus far obtained on imports, the administration supports the addition of that part of article II containing quotas on textiles and apparel.

The administration also supports, of course, title IV of H.R. 18970 permitting the establishment of the Domestic International Sales Corporation, and section 341 resulting adjustment assistance to firms under the Automotive Products Act, and provides certain other perfecting amendments.

With regard to the bill now pending in the House of Representatives, H.R. 18970, the administration supports the provisions described above and the provisions similar to those in H.R. 18970.

As I have indicated, we have, however, deep reservations concerning certain of its provisions which we believe are contrary to the interests of the Nation as a whole. Primary among these are the imposition of quotas on individual items other than textiles and apparel, and the potential extension of import restrictions including quotas through excessive loosening of the escape clause. Also of primary concern is the additional limitation of Presidential flexibility in dealing with trade problems.

We earnestly urge the Senate Committee on Finance to give serious weight to these reservations.

The CHAIRMAN. Thank you, Mr. Gilbert.

Before opening this matter up to participation by committee members, I am going to call on the Honorable Paul A. Volcker, Under Secretary of the Treasury for Monetary Affairs, accompanied by the Honorable Edwin S. Cohen, Assistant Secretary, to present the statements that they have prepared for us.

STATEMENT OF HON. PAUL A. VOLCKER, UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS

Mr. VOLCKER. Thank you, Mr. Chairman.

I, too, welcome this opportunity to testify on trade legislation before the committee.

Last spring, as Ambassador Gilbert has just reviewed, the administration made several proposals to the Congress on trade matters. These proposals were designed to arm the United States with the essential tools it needs to maintain forward momentum toward reducing trade barriers and maintaining the expansion of international trade and investment under fair and competitive conditions. At the same time, they would, I believe, protect the legitimate interests of American business and labor.

As you know, in view of the inability thus far to achieve voluntary restraints on textile imports, the administration also supports the addition to its proposals of certain provisions relating to quotas on those articles. You are also aware, as Ambassador Gilbert has just emphasized, that in other important respects the bill that emerged from the House Ways and Means Committee (H.R. 18970) differs significantly from the proposals of the administration. I share the deep reservations already expressed by Ambassador Gilbert as to certain provisions of the House bill, which I believe are contrary to the national interest.

DISC PROPOSAL

I will, however, devote my attention principally to one major provision of H.R. 18970 which originated with the administration. I refer to title IV that would permit the establishment of a new type of domestic corporation to be known as the Domestic International Sales Corp., or DISC.

The effect of this provision would be to remove impediments to exports from the United States that exist in our present system of corporate taxation. This would be accomplished by making available to our exporters tax treatment more comparable to that available to exporters in many foreign countries and to the treatment accorded subsidiaries of U.S. companies operating overseas. This objective would be achieved, as Assistant Secretary Cohen will further explain, by permitting the deferral, within carefully defined limits, of corporate income tax on profits arising from exports, so long as those profits are employed in support of export efforts.

The basic purpose of this proposal is to remove one obstacle to a more effective competitive effort by our exporters in world markets. It thus will provide important support to the balance of payments and to the external financial position of the United States.

We believe the salutary effects of this legislation will extend beyond the immediately identifiable impact on the profitability of exporting implicit in the removal of an unwarranted drag of taxation. In combination with our parallel efforts to improve export credit facilities, it will, I am convinced, help direct the attention of American industry—particularly smaller and medium-sized firms—to the opportunities available in foreign markets.

It will, I am convinced, help direct the attention of American industry—particularly smaller and medium-sized firms—to the opportunities available in foreign markets.

It should induce fresh corporate planning and marketing efforts to develop those markets, and its impact will be reflected in such basic corporate decisions as plant location.

The concept and basic provisions of the proposal reflect a thorough review of our tax structure from the standpoint of its impact on our export effort. That review included examination of the tax treatment of exports by other countries, as well as the tax treatment under U.S. law of export income as compared to other foreign source income.

We concluded from this analysis that the U.S. tax structure does, in fact, inadvertently contribute to an attitude among many American producers that export markets are not worth a concerted and aggressive effort over a period of years. Indeed, in certain respects, our tax system actually gives relative benefits to manufacturing abroad rather than in the United States.

The proposal before the committee would remedy these defects by recognizing that export income of a U.S. corporation is partly foreign source income, just as income from foreign subsidiaries is foreign source income. The same principle is incorporated in the laws and practices of other countries. Where this sound tax philosophy has heretofore gone astray in the operation of our own tax system is that the U.S. tax deferral of retained earnings, which is generally available on foreign manufacturing income, can be obtained on export income only through creating a foreign-domiciled sales subsidiary.

Many companies, particularly those without extensive foreign operations, find this awkward and impractical.

Why should our laws require a foreign domicile for export income to qualify? Foreign source income can appropriately be determined by the destination of the goods rather than the domicile of the corporate vehicle through which the sale has passed.

We believe our proposed rules that would accomplish this purpose are consistent with international practice and obligations.

I believe the basic need for this legislation to correct a longstanding anomaly in our tax treatment of exports is apparent from any considered analysis of our balance of payments and international financial position.

We have been coping with a severe balance of payments problem for a lengthy period. The net outflow of dollars into foreign central banks and treasuries has fluctuated considerably in recent years in response to transient factors; the hard fact is that our underlying position has remained unsatisfactory.

In the latter half of the 1960's, the most serious element in the problem was that our traditionally large surplus on trade and on all current account transactions dwindled steadily. I believe we see the beginnings of a reversal of that trend this year. But, realistically, we must recognize that this improvement has been exaggerated by the temporary effects of an economic slowdown here and an inflationary boom abroad.

Clearly, our current account surplus is still inadequate to support fully our investment activity abroad and our international obligations.

Rebuilding that surplus must be a prime policy objective if we are to protect the stability of the dollar and discharge our international responsibilities effectively.

I do not believe we have the option of seeking that necessary improvement by turning inward with restrictive measures. It is not just a matter of economic philosophy or principle, important as freer trade is to the health of the world economy, standards of living at home and abroad, and effective competition.

The harsh fact is that restrictions considered unfair and unacceptable to our trading partners will impair the atmosphere of cooperation built up so carefully in many of our international economic relationships and could even invite retaliation. Instead of benefiting our trade position, spreading restrictions would damage our prospects for regaining a substantial surplus through competitive processes. I believe, too, at this time particularly, we must recognize that the flow of imports is one of the most effective possible checks to domestic inflationary pressures. And in the long run, we cannot expect to maintain a competitive industry behind import barriers.

The DISC proposal looks outward. It is designed to enable our industry to compete fairly but more effectively in world markets, building on the solid and essential base of a restoration of greater price stability. Intensive contacts with industry support our own conviction that the impact on the level of exports will be appreciable over a period of time. Admittedly, in this area, concrete estimates are difficult. We have, therefore, prepared estimates based on differing assumptions—one set we feel to be conservative and the other reflecting more favorable assumptions emerging from some of our industrial consultations. Taking the more conservative estimates, we anticipate the DISC would generate, over the 4 to 5 years following its initiation, almost $1½ billion more exports per year than would otherwise take place.

More optimistic assumptions suggest that, over the same period of time, the impact could run to $2½ billion. In either case, further gains should accrue in later years.

At the same time, we recognize that these gains will entail a definite cost in revenues. In recognition of this cost and the heavy current pressures on the budgetary position, the bill contemplates a gradual phasing in period extending until 1974.

With this phasing in, we anticipate that the revenue impact during the remainder of fiscal year 1971—assuming an effective date of January 1—would be less than $75 million. By the fifth year, our estimates indicate the direct revenue cost could be expected to rise progressively to approximately $600 million.

Significant taxable distributions would commence after the first few years, tending to limit further increases in costs. I would also emphasize, Mr. Chairman, that these are estimates of the direct revenue impact. They do not take into account, or make allowance for, the long-range stimulative effect of this proposal—in the form of additional jobs, additional investment, and additional exports. These long-range benefits cannot be isolated statistically, but certainly they will exist. They will potentially offset materially the direct revenue costs of the proposal.

In conclusion, I strongly urge the committee to support this aspect of the administration's trade legislation. The need is urgent. We can no longer afford the luxury of maintaining provisions in our tax system that tend to discriminate against exports in favor of foreign investment. Our trade position and our balance-of-payments position need improvement. I firmly believe that the DISC proposal is in the interests of a strong and healthy expansion of our economy, consistent with maintaining a strong external financial position.

The CHAIRMAN. Thank you very much, Mr. Volcker.

Now, gentlemen of the committee, it is the view of the Chair that we should confine ourselves to a minimum of questions because we are working under a very severe time limitation, and I will ask that each member be limited to 5 minutes for his questions.

Mr. VOLCKER. Mr. Chairman, Mr. Cohen has some more detailed material which he could either summarize or submit for the record or both.

The CHAIRMAN. Would you care to summarize it? We will print the entire statement.

STATEMENT OF HON. EDWIN S. COHEN, ASSISTANT SECRETARY FOR TAX POLICY

Mr. COHEN. If I may, I will submit for the record my statement with respect to this DISC proposal to which we would attach and submit two memoranda, one dealing with provisions in foreign taxation laws which affect export activities of those countries and another memoranda relating to company and industry responses which have been received with respect to the DISC proposal. So I will submit those for the record.

The CHAIRMAN. I would like to have that appear as a part of the record in connection with your statement and printed in the same type print that we print the rest of it because that is very desirable information.

I am going to personally review it and I would urge every member of the committee to study it because it is very useful in order to appreciate the need and desirability of your proposal.

(Mr. Cohen's prepared statement and memoranda entitled "Provisions in Foreign Direct Taxation Laws Affecting Export Activity," and "Company and Industry Responses to DISC Proposal," follow. Oral testimony continues on page 35.)

STATEMENT OF HON. EDWIN S. COHEN, ASSISTANT SECRETARY FOR TAX POLICY, DEPARTMENT OF THE TREASURY, ON THE TREASURY'S DOMESTIC INTERNATIONAL SALES CORPORATION PROPOSAL

Mr. Chairman and members of the committee, I appreciate the opportunity to appear before this committee to describe our Domestic International Sales Corporation (DISC) recommendation and to urge its approval by the committee. We make this recommendation because the U.S. tax system presently results in an income tax disadvantage to U.S. export sales as contrasted with foreign production by subsidiaries of U.S. companies, or by foreign-owned companies. At a time when the United States is making every effort to improve its balance of trade, this disadvantage should be removed.

The DISC proposal provides for deferral of U.S. tax for a domestic corporation engaged in export sales similar to that presently provided for foreign manufacturing subsidiaries of U.S. companies.

The DISC proposal is now before the committee in the form of title IV of amendments Nos. 925 and 1009 to H.R. 17550. The House Ways and Means Committee has reviewed this proposal in detail and reported it to the House as title IV of H.R. 18970. All of these provisions are identical and I will simply refer to them as the DISC bill.

We strongly support the provisions of the DISC bill which recognize the importance of a change in the income tax rules applicable to U.S. exports.

While income tax factors are important, we recognize that economic factors often tend to favor local production in or near the market in which the products are being sold. Over the last 20 years we have witnessed a constantly increasing degree of manufacturing abroad by U.S. companies. In many cases, for a variety of political and economic reasons, such local production may be the only means of competing effectively in certain markets. U.S. tax policy can and should, at best, have only a limited effect on such decisions. On the other hand, the U.S. tax laws themselves have treated export sales much less favorably than foreign manufacture, and thus have compounded the emphasis on foreign production. This inequity in our tax laws can and should be remedied.

We should compare U.S. tax rules with those of many of the developed countries of the world which defer their tax on export income or exempt such income from tax, to a greater or lesser extent. In addition, many countries have special tax rules which effectively promote export activity such as extraordinary reserve allowances on export sales and greatly accelerated depreciation of export assets. In contrast, the U.S. taxes currently and, with the exception of the Western Hemisphere Trade Corporation concept, fully, the income from any export sale by a domestic corporation because the corporation is incorporated in the United States.

In 1962, legislation was enacted to tax currently U.S. shareholders on certain passive income (such as dividends, interest, and royalties) and on certain sales and services income earned by controlled foreign subsidiaries. Two important exceptions were made. First, the Export Trade Corporation exception in section 970 of the Internal Revenue Code provides specifically for limited deferral of income earned by a foreign corporation selling U.S. export production. In retrospect, we would question whether such deferral should be available only to a foreign corporation and not where export sales are made directly by a U.S. corporation. Second, section 963 allows in effect full U.S. tax deferral of low-taxed income of a foreign sales company where pursuant to a so-called "minimum distribution" election such income is averaged with higher taxed income from foreign manufacturing activities of the same controlled group if the average effective foreign tax rate reaches 90 percent of the U.S. tax rate. In a real sense, the only U.S. exporters who benefit from such deferral are those who also have substantial investments in foreign manufacturing facilities and thus can achieve this complex averaging effect.

In view of these limitations on deferral, the only way most U.S. manufacturers are able to obtain the benefits of full deferral of the U.S. tax is to form a foreign corporation to manufacture abroad. The income from the sale of goods manufactured by foreign corporations owned by U.S. shareholders is not taxed by the United States until such income is distributed to the shareholders (or the stock of the subsidiary is sold). Until distribution (or the sale of the stock), the only applicable income taxes are foreign taxes, and these may be imposed at a level below the U.S. level or may be completely waived, especially on exports.

This existing U.S. tax treatment of foreign source income inherently involves a bias in favor of our largest corporations. Through their extensive foreign structures, they are also frequently able to use the foreign tax credit, either with or without minimum distribution elections, to reduce, even after distribution their U.S. tax liability on export earnings. To the extent that this deferral and reduction are being achieved under present law, the tax deferral effect of the DISC proposal would not involve a revenue loss through a postponed receipt. The DISC would work in favor of companies without existing large foreign structures and without extensive foreign tax credits.

Accordingly, the DISC will provide equivalent opportunities for tax deferral for foreign source income arising from export sales for smaller corporations and for corporations newly entering the export market or expanding their export sales. This additional equity of tax treatment as between our largest corporations and U.S. business in general is an important feature of the administration's proposals.

Some would say that the remedy to the inequities we describe is simply to remove the deferral on all foreign earnings of U.S.-controlled businesses and tax it currently. Such a response clearly acknowledges the inequities we describe. It also overlooks some critical facts. The foreign-owned competitors of U.S. businesses in the world markets are generally not subject to such an all-embracing concept of taxation by their home countries. To the contrary, the territoriality principle of the tax systems of other industrialized countries exempts foreign source earnings, so that their companies operating abroad are able to enjoy the full advantage of tax holidays and reduced corporate rates, whether directly or through greatly accelerated depreciation allowances or other special tax allowances or inducements.

Our studies show that the average effective foreign tax rates are generally below our U.S. effective corporate rate. For 1964, the effective foreign tax rate on all foreign subsidiary operations of U.S. businesses was approximately 38.6 percent. Our U.S. companies presently achieve deferral on the difference between the foreign tax level and the U.S. tax level with respect to the earnings of their foreign subsidiaries, and thus pay no more tax on a current basis than their competitors. However, virtually every foreign country imposes a withholding tax on dividends. If the United States were to impose its taxes on the earnings of U.S.-controlled foreign subsidiaries on a current basis, these subsidiaries would surely remit their earnings in dividends to be certain of obtaining the foreign tax credit for the withholding taxes on dividends. Earnings needed in the businesses of the foreign subsidiaries would then be returned as capital contributions or loans.

These withholding taxes would largely offset the residual U.S. tax through the foreign tax credit. The net effect would be an increase in the current foreign taxes collected from U.S. businesses with little, if any, additional U.S. tax. Thus, the position of the U.S. businesses in the world market would be prejudiced.

We think it is not wise as a matter of sound national tax policy to affect adversely the competitive position of our companies by neutralizing their opportunities to benefit from lower levels of foreign tax in countries in which they have substantial operations and which are enjoyed by their competitors. This, of course, would be precisely the effect of extending our own corporate tax to all foreign source income of U.S. businesses. The existing structure provides for deferral of the U.S. tax until dividends are paid. The payment of such dividends reflects the fact that the foreign earnings are no longer needed in the foreign operations. This is a sound system and is equally sound for export earnings.

Thus, the basic purpose of the DISC proposal is to remove inequities in our present system in the tax treatment of export earnings. I will now outline the main features of the proposal as they have been incorporated in the DISC bill.

1. BASIC PROVISIONS

The Internal Revenue Code would be amended to provide for a new category of domestic corporation to be known as a Domestic International Sales Corporation (a "DISC"). The U.S. tax on the export income derived through such a corporation would be deferred as long as it is either used in the corporation's export business or is invested in qualified assets of the DISC, and thus is not distributed to the DISC's shareholders. Qualified assets would include loans to U.S. producers, including the DISC's parent company where the DISC is a subsidiary, to finance investments in U.S. plant, equipment and machinery, inventory, and research and development to the extent these investments are deemed export related. The manufacturer's total investments for any of these purposes would be treated as export related in the same ratio as the manufacturer's sales destined for export bear to total sales.

In order to qualify as a DISC, a corporation would be required to confine its activities almost entirely to export selling and certain related activities. A DISC could have foreign sales branches and its own foreign sales subsidiaries where such branches and subsidiaries are engaged in the sale of U.S. exports. The DISC could not engage in manufacturing or invest in or finance foreign manufacturing activities.

A DISC could sell the products of any domestic producer (purchased from, or sold on behalf of, the producer or an unrelated DISC) and could sell them to any foreign purchaser for a foreign destination, whether or not related.

Although some complexity is inherent in integrating the DISC proposal with the existing provisions of the Internal Revenue Code, the DISC bill is intended to simplify tax concepts applicable to export activity to the maximum degree possible. For example, a destination test for export sales is substituted to reduce the complexities of the present passage of title test.

2. QUALIFICATION AS A DISC

The qualification requirements are that a DISC must be a domestic corporation, must have 95 percent of its receipts in the form of qualified export receipts, must have 95 percent of its assets in the form of qualified assets, must have only one class of stock and a minimum capitalization of $2,500, and must have made an election to be treated as a DISC.

To meet the gross receipts test, at least 95 percent of the DISC's receipts would be required to be received from export sales activities and from qualified export assets. In order to meet the assets test, 95 percent of the DISC's assets would be required to be used in its export business or be in the form of Eximbank obligations or producers loans (as hereinafter described). To prevent inadvertent disqualifications under either of these tests, the DISC bill provides that if any income derived from nonqualified receipts or any nonqualified assets are timely distributed by a DISC, such receipts or assets will not be taken into account for purposes of the 95 percent gross receipts and the 95 percent assets tests.

The following would be treated as giving rise to qualified receipts:

Export sales of goods manufactured, produced, grown or extracted in the United States by persons other than the DISC and sold by the DISC either on a purchase and resale basis or as a commission agent;

The leasing or rental of U.S. export property;

The performance of services by the DISC related and subsidiary to its sales or leases;

Interest on obligations which are qualified export assets;

Dividends from foreign sales subsidiaries engaged in marketing U.S. exports;

Dividends from less than 10-percent equity investments in unrelated foreign corporations made in furtherance of export sales;

Gains on the sale of qualified export assets;

Receipts derived in connection with the performance of managerial services in furtherance of the production of qualified export receipts; and

Receipts with respect to engineering or architectural services for construction projects located (or proposed for location) abroad.

Qualified export assets include:

Obligations of export customers;

Export property held for sale or lease;

Other working capital used in the DISC's sales or commission business;

Facilities primarily for the sale, lease, rental, storage, handling, transportation, packaging, assembly, or servicing of export property;

Assets of foreign sales branches handling U.S. exports;

Obligations issued, guaranteed, or insured by the Export-Import Bank and certain similar paper;

Stock or securities in foreign sales subsidiaries engaged in marketing U.S. exports, including foreign packaging and limited assembly operations;

Stock or securities in unrelated foreign corporations made in furtherance of an export sale or sales;

Obligations representing loans to domestic producers; and

Temporary deposits in the United States with persons carrying on the banking business.

3. TAX TREATMENT OF DISC INCOME

So long as the domestic corporation continues to qualify as a DISC, U.S. tax would not be imposed on its current or retained export earnings, which would include dividends and interest from any qualified foreign export sales subsidiaries. Upon a dividend distribution or the liquidation or sale of the shares of the DISC, its retained export earnings would be taxed to its shareholders as ordinary income. Thus, the net effect would be a deferral of the U.S. tax. The intercorporate dividends-received deduction would not be available since the DISC would not have been subject to tax and the tax is only to be deferred until distribution by the DISC.

Dividends of a DISC paid out of accumulated export income would be treated as foreign source income. With respect to any foreign income taxes paid by the DISC, a foreign tax credit would be available to the corporate shareholders to offset U.S. tax on foreign source dividends received from the DISC. This would approximate the tax treatment of accumulated earnings and profits of foreign subsidiaries under present law and the present treatment for exports where passage of title is arranged to occur outside of the United States.

4. ALLOCABLE DISC PROFITS

Where a DISC sells on behalf of a related person, the deferral of income on exports extends only to that portion of profits considered to be export sales (or rental) income. The portion of profit considered as manufacturing or domestic profit will continue to be taxed currently as under present law. Thus, the allocable intercompany pricing rules applicable under present law to transactions between related persons may be used to determine the export profit and the manufacturing profit. This can be a complicated and uncertain process in some cases and actual or potential disputes can be a deterrent to export activity. Therefore, the DISC rules also employ safe haven guidelines that may be elected where a DISC exports on behalf of a related company, permitting the DISC to retain as tax deferred export income the higher of either:

A. Up to 4 percent of its sales plus 10 percent of the "export promotion expenses" incurred by it; or

B. Fifty percent of the combined taxable income from the manufacture in the United States and the export sale by the DISC, plus 10 percent of the export promotion expenses incurred by the DISC.

Allocation rules along the foregoing lines would be analogous to those applied by a number of countries, generally on an informal basis, in the determination of their tax liability on exports. Their primary advantage would be in providing a greater degree of specificity and definitiveness in limiting the profit which may be realized by the DISC vis-a-vis its related U.S. supplier and in having U.S. exporters subject to the same types of rules as their foreign competitors.

5. PRODUCER'S LOANS

As stated previously, a DISC is to be permitted to loan its tax deferred profits to its parent manufacturing company (or any other U.S. export producer), as long as the cumulative amount loaned to any one borrower does not exceed the amount of the borrower's assets considered as being related to its export sales. This in essence is the same proportion of the borrower's assets that its export sales are of its total sales. These loans—termed "producer's loans"—are to constitute qualified export assets of a DISC and the interest arising on the loans is to represent a qualified export receipt of a DISC. However, the interest on such loans will not be tax deferred income of the DISC. Where such interest is not distributed annually, it will be deemed to have been received by the shareholders annually.

For a loan of a DISC's tax deferred profits to constitute a producer's loan, the loan must be made to a borrower who is engaged in the manufacturing, production, growing, or extraction of export property in the United States and at the time the loan is made it must be designated as a producer's loan. The loan must be evidenced by a note (or some other evidence of indebtedness) and have a stated maturity of not more than 15 years. To qualify as a producer's loan, a loan must be made out of the tax deferred profits—the accumulated DISC income. A loan is to be considered as made out of accumulated DISC income if at the beginning of the month in which the loan is made, the amount of the loan, when added to the unpaid balance of all other producer's loans previously made by the DISC, does not exceed the DISC's accumulated DISC income.

The limitation imposed on the amount of loans which a borrower may receive during a taxable year of the borrower is to be determined by applying the percentage which the borrower's qualified export receipts arising from its sale of export property during the 3 prior taxable years is of its aggregate gross receipts from the sale of inventory property during that period, to the total of the borrower's assets taken into account for this purpose. There are three categories of a borrower's assets which are taken into account in determining this limitation for a year: (1) the amount of the borrower's investment in plant, machinery, equipment, and supporting production facilities in the United States as of the beginning of its taxable year; (2) the amount of the borrower's inventory at the beginning of the taxable year; and (3) the aggregate of the borrower's research and experimental expenditures in the United States during all preceding years of the borrower which began after 1970.

It is not contemplated that there will be any tracing of loans to specific manufacturing facilities or equipment actually used in production for export.

All loans would be interest bearing, resulting in an interest deduction to the borrower. The section 482 safe haven rules will be applicable: Presently the interest charged must be a minimum of 4 percent and maximum of 6 percent, although the rate may be higher if an arm's-length rate would be higher.

At maturity, any loan can be renewed, or the principal loaned to another borrower, provided always that there is compliance with the rules previously described. Qualified loans would remain qualified throughout their term regardless of any decreases in export sales. They would not be treated as constructive dividends.

6. ACQUISITION OF EXPORT-IMPORT BANK PAPER BY DISC'S

As stated above, qualified export income would include interest on credit extended to export customers and interest on obligations issued, guaranteed, or insured by the Export-Import Bank and certain similar paper. Such debt obligations would also constitute qualified export assets. In cases where the DISC acts as a commission agent for an export manufacturer, the obligations acquired by the manufacturer in connection with the extension of credit to export customers in accordance with normal commercial practice could be acquired by the DISC.

It would be provided that the following types of Export-Import Bank obligations and similar paper would give rise to qualified export income and constitute qualified export assets:

Obligations issued by the Export-Import Bank;

Obligations guaranteed or insured by the Export-Import Bank in cases where the DISC purchases the obligations from the Export-Import Bank or from the exporter;

Obligations insured by the Foreign Credit Insurance Association in cases where the DISC purchases the obligations from the exporter;

Obligations issued by certain domestic corporations organized solely for the purpose of financing U.S. exports pursuant to an agreement with the Export-Import Bank whereby such corporation makes export loans guaranteed by the Export-Import Bank.

7. DEFICIENCY DISTRIBUTIONS

In order to prevent inadvertent disqualification of a DISC, a deficiency dividend procedure would permit continued qualification of the DISC. Deficiency distributions could be made at two stages where either the income or asset test had not been met:

Current Deficiency Distributions.—Where the DISC during the taxable year had at least 70 percent of its gross receipts in the form of qualified receipts, and at least 70 percent of its assets in the form of qualified assets, a distribution of the income derived from nonqualified gross receipts could be made at any time after the close of the DISC's taxable year and prior to the time for filing the DISC's annual return. Similarly, any nonqualified asset could be distributed, or such asset could be liquidated with the proceeds being distributed within such period.

Delayed Deficiency Distributions.—A distribution of nonqualified income or a nonqualified asset (or a distribution from the proceeds of such an asset) could be made at any time with respect to any year as to which the period for assessment of additional taxes had not expired provided that the existence of such income or asset and the failure to distribute it within the return filing period was due to reasonable cause.

8. DISQUALIFICATION OF DISC, LIQUIDATION, OR SALE OF STOCK

Upon liquidation of a DISC or upon its disqualification (where the deficiency dividend procedures are not used), DISC status would terminate and the earnings and profits of the DISC on which U.S. taxes had been deferred would be deemed to be distributed to the shareholders. Each shareholder would be taxed as if he had received his pro rata portion of such income in equal installments in the year in which such liquidation or disqualification occurs and in each of the succeeding 9 years; except that if the DISC has not been qualified as such for at least 10 years, the period of distribution will be deemed to be the number of consecutive years the DISC was qualified immediately prior to the liquidation or the disqualification.

Upon the sale of stock in a DISC, the gain realized will be taxed at ordinary income rates to the extent of the accumulated earnings and profits after the date of the DISC election.

9. EXPORT PROPERTY

The type of property which is considered export property for a DISC is property which—

A. Has been manufactured, produced, grown, or extracted in the United States by someone other than a DISC;

B. Is held by the DISC primarily for sale, lease, or rental in the ordinary course of business for use, consumption, or disposition outside the United States, or which is held by the DISC for sale, lease, or rental to another DISC for such a purpose; and

C. Not more than 50 percent of the fair market value of which is attributable to imported articles.

10. REORGANIZATION OF EXISTING EXPORT OPERATIONS

It is contemplated that in general tax-free reorganizations would be permitted to place existing foreign operations in a DISC or to put existing foreign sales subsidiaries under its ownership. The DISC bill presently provides that the little used foreign export trade corporation provisions of section 970 of the Internal Revenue Code will be phased out as the DISC provisions become fully effective.

11. PHASEIN

Under the DISC bill, the deferral of DISC income will be phased-in over 3 years, beginning in 1971. Fifty percent of the allocable DISC income will be deferred from current taxation in 1971; 75 percent in 1972 and 1973; and 100 percent beginning on January 1, 1974.

* * * * * * *

This concludes our description. A more detailed explanation is found in the House Ways and Means Committee report to accompany H.R. 18970.

While the provisions of the DISC bill are not identical to the original proposals of the administration, we give our full support to these provisions. Some minor technical problems have been suggested. We have discussed this in general with the staff of the Joint Committee on Internal Revenue Taxation and it was agreed that we will give immediate consideration to these problems and to developing any technical amendments which may be warranted.

We, therefore, urge that this committee give its approval to the DISC bill.

Provisions in Foreign Direct Taxation Laws Affecting Export Activities, October 9, 1970

To aid the committee in its consideration of the DISC bill, a description of the income tax laws and practices of other nations which operate to the advantage of export activities is herein provided. The description is confined largely to other industrialized countries. It should be noted that in many foreign countries tax treatment favorable to export activities is frequently accorded on an informal, administrative basis and may, therefore, be difficult to identify.

This paper is intended to suggest some of the income tax provisions and administrative practices that can affect the export of products from various foreign countries. Some of the most significant provisions that would affect tax planning for export sales were not intended as export incentives when adopted but evolved from traditional theories of tax jurisdiction and taxation of foreign source income.

Devices having the effect of export incentives range well beyond income tax measures, including, among others, direct grants, Government credit facilities, interest subsidies, insurance, guarantees, internal shipping subsidies, exchange control privileges, and tax measures other than those affecting income taxes. Some forms of Government assistance may be available ostensibly for domestic as well as export activities, making it difficult to classify them solely as export incentives.

Rebates of value-added and other turnover taxes provide an export inducement to exporters in countries having such sales tax systems.

The following summary is not exhaustive nor has it been verified by counsel in each of the countries. It is nevertheless believed to be accurate and, except where specifically indicated, current. The summary consists of a list of seven specific types of provisions. Attached to the list are individual country summaries for 17 countries. It should be recognized that numerous U.S. corporations have established foreign subsidiaries which have benefited from the favorable treatment discussed in many of these countries.

The various laws and practices are as follows:

1. Taxation of Foreign Source Income.—Unlike the United States, many industrialized countries impose income taxes on a territorial basis, which means that foreign source income is often wholly or partially tax exempt. Such exemption may apply not only to income from direct investments abroad, but also to foreign sales of domestically produced products either through a foreign subsidiary or through a branch or dependent or independent agent.

In the case of most developed countries, exports can be made through controlled sales companies organized in low tax jurisdictions with a consequent tax shelter for the sales profits. For example, a manufacturing corporation, A, in country X, which may or may not be a subsidiary of a U.S. corporation may make its export sales through a related sales corporation, B, located in country Y where corporate taxes are minimal. To the extent corporation B makes part of the profit that corporation A would have made in direct sales, the tax burden is reduced.

While most countries have protective provisions in their tax laws that permit the local tax authorities to reallocate income between related entities, different countries have different rules as to such allocations, and considerable flexibility is often found in intercompany pricing. In at least some cases (as indicated below) it is understood that no reallocation would result from the prices charged by corporation A to B as long as corporation A earned at least one-half of the combined profits.

In some cases foreign sales corporations can establish purchasing and coordinating branches in the manufacturer's home country without affecting the income tax exemption of the foreign sales corporation, while facilitating exports through the sales corporation.

2. Specific export income exemptions.—Some countries, such as Ireland, have income tax exemptions for export sales. Such exemptions are sometimes limited to products produced in free-trade zones or depressed areas. As indicated below some countries extend income tax exemptions or other benefits to companies locating in depressed areas, but in practice the benefits are offered largely to companies with a high export or import substitution potential.

3. *Accelerated depreciation.*—Several countries (e.g., Japan, France) permit or have permitted accelerated depreciation allowances for assets used in export production.

4. *Special reserves (market development, bad debt).*—Several countries (e.g., Australia, France, Japan, Spain) have permitted special deductions for export market development or special bad debt reserves in connection with export credits.

5. *Special deductions, rate reductions or credits related to exports.*—Australia reduces payroll taxes by an amount related to export increases. New Zealand permits a deduction from income taxes of 15 percent of increased export receipts. France permits deductions for the expenses of establishing foreign sales offices although income from such offices may subsequently be exempt.

6. *Favorable intercompany pricing rules.*—Either express rules or administrative practices frequently provide an additional incentive for export transactions through related foreign subsidiaries. In some countries, administrative practice permits considerable flexibility in intercompany pricing rules. In some jurisdictions, rule-of-thumb allocations permit 50–50 divisions of taxable income, even in cases where the foreign subsidiaries perform minimal functions.

7. *Discriminatory allocation of benefits based on export production.*—In addition to provisions related formally or informally to exports, there are often benefits (tax holidays, capital grants, investment allowances, interest subsidies, etc.) designed to attract new investments which are not always tied to exports in the legislative enactments, but potential exports are an important factor in the granting of such benefits. In some cases, the import substitution effect is also of importance in granting such benefits.

Not only are each of the devices listed above employed by one or more foreign countries, but the cumulative effect of these devices used by certain individual countries should not be overlooked. Thus, for example, Japan uses the following in combination:

1. Accelerated depreciation based upon export performance;
2. A deductible reserve for the development of overseas markets;
3. Special deductions for a variety of activities producing foreign exchange;
4. Liberal entertainment expenses to promote export sales.

AUSTRALIA

Foreign source income

Income derived by a resident Australian company from foreign sources is exempt from Australian income tax provided that it is not exempt from tax in the country of origin. The income earned by a foreign sales subsidiary of an Australian company is not subject to Australian income tax until distribution to Australian shareholders.

Export market development rebate

Australian law provides a tax rebate (credit) of 42.5 percent of an expenditure incurred for export market development and also permits the full deduction of the expenditure incurred. The combined effect, as computed under the tax laws, permits a total tax saving of 87.5 cents for each dollar of expenditure. Qualified expenditures include among others: market research, overseas advertising, certain travel expenses, labels and packaging for export, protection of property rights, the preparation of tenders or quotations, and the supplying of technical data.

Payroll tax

A refund of payroll taxes is made in the event of an increase in export sales over a base period.

BELGIUM

Foreign establishments and subsidiaries

Income from a foreign establishment of a Belgian company is taxed at a reduced income-tax rate equal to one-fourth of the ordinary rate; provided the income was generated and taxed abroad.

The income of a foreign sales subsidiary is not taxed until dividends are distributed. Upon distribution, the net dividends received (after deduction of foreign tax) are subject to a 10-percent tax withheld by the paying agent in Belgium. The amount remaining after the foreign tax and 10 percent Belgian tax is entitled to a 95-percent exemption in determining the Belgian company tax. The company income tax therefore applies to an amount equal to 5 percent of the net foreign-source dividends.

Development subsidies

The Belgian Government provides incentives for investment in certain areas of Belgium. The current provisions have a termination date of June 30, 1970. However, a new law to extend the provisions has been proposed. The incentives currently offered consist of interest subsidies, loan guarantees, capital, allowances (with tax exemption for such allowances), and exemption from the registration tax. It is understood that export projections are included in the criteria for determining the granting of such incentives.

CANADA

Foreign subsidiaries

Canada does not presently tax currently the undistributed earnings of foreign sales subsidiaries. Dividends from a nonresident foreign corporation acting as a foreign sales subsidiary are exempt from Canadian income tax if more than 25 percent of the share capital is owned by the Canadian corporation receiving such dividends. A tentatively proposed Canadian tax reform would limit such exemption to foreign corporations in countries with which Canada has entered into income tax treaties.

Grants

Canada offers grants to companies, domestic or foreign, to locate in slow growth areas. These incentives are not expressly tied to export sales or import substitution. Most of the provinces also offer grants and loans to achieve the same desired objectives. The Province of Quebec has, however, an incentive program which is designed to aid companies who use "advanced technology" and "who are in position to supply world markets." Grants are also available to Canadian companies to encourage scientific research and development in Canada. To qualify for such assistance, recent amendments have required Canadian companies to be prepared to exploit the results of such research in Canada's export markets as well as in Canada. The grants are not available to companies excluded from selling to major export markets.

DENMARK

Foreign Permanent Establishment, Sales Subsidiaries

Where a resident Danish company has income from a foreign establishment, the proportion of total Danish tax payable with respect to such income is reduced. The reduction amounts to 50 percent of the Danish income tax applicable to the before-tax net income of the foreign branch or other establishment.

A foreign sales subsidiary is not taxed currently on its sales profits. Dividends paid to a Danish corporation owning 25 percent or more of the shares of the subsidiary are taxed at a reduced rate by application for a refund with the reduction being computed in a manner comparable to the reduction for foreign branch income above.

FRANCE

Export sales

Profits on sales of goods which are manufactured in France and shipped abroad by a French company are taxed only to the extent that they are realized through and allocable to operations in France ("entreprise exploitée en France"). Profits are treated as foreign source income and not subject to current French income tax where they are:

Derived from establishments abroad (Conseil d'Etat, March 9, 1960);

Derived from operations abroad of dependent agents (Conseil d'Etat, June 5, 1937);

Derived from operations abroad which constitute a complete commercial cycle ("cycle commercial complet") (Conseil d'Etat, February 14, 1944).

The territorial exemption applies to the foreign source profits when earned and when remitted to the French company.

Foreign sales subsidiary

Profits earned by a foreign sales subsidiary of a French company are not taxed currently in France. Upon distribution of a dividend from a foreign subsidiary to a French company, there is a 95 percent intercompany dividends received deduction. To obtain such deduction the parent must hold a minimum of 10 percent in the equity capital of the subsidiary or the cost acquisition of the participation must have been at least 10 million francs.

The 5 percent taxable portion of the dividends represents a lump sum deduction to cover business expenses attributable to the exempt dividends.

Distribution of foreign source income to French shareholders

The tax exempt foreign source income of a French corporation, including income exempt under the territorial rules or under the 95 percent intercompany dividends received deduction is not taxed until distribution to shareholders. Upon distribution a French company must make a supplementary tax payment (*précompte*) equal to one-half of the dividend to the French Treasury with respect to profits that did not bear the normal 50 percent French corporate tax rate.

At the shareholder level, the shareholder is entitled to a credit equal to one-half the dividend, which is applied against his personal tax on the dividend grossed up by the credit.

Intercompany pricing

Article 57 of the Code General des Impots provides that profits indirectly transferred to controlled enterprises outside of France through intercompany pricing are to be reallocated and that such adjustments may be based on comparison with the operations of similar enterprises operating normally. However, it is understood that, under administrative interpretation, article 57 is not employed where exporting enterprises can establish that sales made by a parent French corporation to foreign subsidiaries at prices approximating cost do not have as their objective the shifting of income but are due to commercial requirements.

Specific export incentive provisions

1. A 1959 reform law provided that depreciable assets (other than immovables), purchased or manufactured between January 1960 and January 1965, were entitled to special accelerated depreciation in the case of exporting enterprises. The accelerated depreciation is equal to the straight line depreciation multiplied by 150 percent of a fraction, the numerator of which is the export production and the denominator of which is total production (article 39A Code General des Impots).

2. French enterprises are allowed a special deductible reserve for middle term (2–5 years) loans extended to foreign customers (article 39-1-5 Code General des Impots). The reserve allowance is more generous than normal bad debt reserves.

3. Expenses for establishing and operating foreign sales offices during their first 3 years of operation may be deducted against domestic income, even though future profits may be tax exempt. (See article 39, Code General des Impots; article 34 of the law of July 12, 1965.)

GERMANY

A resident German corporation is taxed on its worldwide income. When business profits are derived through a foreign business establishment they are deemed to be from a foreign source. This rule is applied to any fixed installation or facility which serves the business activity of the German enterprise. A permanent representative, whether dependent or independent, is included in this concept, whether physical facilities are present or not. Broadly speaking, a foreign business connection is generally sufficient to create foreign source income.* Some German commentators have stated that domestic source income is limited to profits derived from deliveries of goods to foreign countries by German enterprises which have no business connection whatsoever in the foreign country concerned.

Foreign tax credit or reduced rate

Where a German company has foreign source income under the above rule, a tax credit is available for foreign income taxes upon such income. As an alternative, German law authorizes the tax authorities to grant reductions of the German corporate tax with respect to foreign source income. A decree promulgated in 1959 provides for a flat rate of 25 percent on qualifying foreign source income.

*Where there is no foreign connection, full German tax rates (without foreign tax credits) apply.

(Decree of July 9, 1959; BStBl 1959 II 132.) Sales profits derived through a foreign establishment qualify as foreign source income under this rule. This relief measure is applicable on request of the taxpayer and may be elected for specific foreign countries.

Exemption

Under its tax treaties, Germany ordinarily exempts the foreign source income allocable to a foreign permanent establishment as defined in the applicable treaty. Presumably such establishments have borne local corporate taxes. Recent amendments of the regulations permit foreign source losses to be deductible from taxable income despite the potential exemption of future profits.

Foreign subsidiaries

A German corporation may establish a foreign sales subsidiary and will not be subject to current taxation on the income of the foreign sales subsidiary, whether incorporated in a high- or low-tax jurisdiction. Dividends received from the foreign subsidiary are includable in the taxable profits of the German parent corporation. The parent may elect to have the dividends taxed at a flat 25-percent rate. Under certain circumstances, losses in foreign subsidiaries may be deducted by the German parent corporation.

Where a tax treaty is applicable, Germany ordinarily exempts the dividend income received by the German parent corporation from German tax. A 25-percent stock ownership is ordinarily required for such exemption.

IRELAND

Export exemption

A corporation, whether or not incorporated in or managed in Ireland, having a manufacturing operation in Ireland can obtain a 15-year exemption from Irish corporate taxes on all export sales, plus a reduced rate of tax for a further 5 years. Dividend distributions out of such profits are themselves exempt from all Irish income taxes. Cash grants of up to 50 percent of capital costs of plant and machinery are also available.

There is a separate scheme for the Shannon Airport area, including tax exemptions for the importing, handling, and reexporting of goods.

ITALY

Foreign branches and subsidiaries

Foreign source income of an Italian company is exempt where allocable to a foreign branch having separate management and accounting.

A foreign sales subsidiary of an Italian company is not subject to current income taxation in Italy. A branch of such a corporation may be maintained in Italy if it does not sell in Italy. The non-Italian source profits of such a branch would not be subject to Italian income taxation.

JAPAN

Direct income tax incentives relating to exports fall under four general categories:

1. Accelerated depreciation,
2. Reserve for development of overseas market,

3. Export allowances, and
4. Entertainment expenses.

Accelerated depreciation in case of export sales

A. A corporation is allowed a tax deduction for accelerated depreciation based on export sales made in the immediately preceding year. The amount of additional depreciation is computed by applying the ratio of export sales over total sales to maximum ordinary depreciation available. In other words, if export sales are 30 percent of total sales, ordinary depreciation is increased by 30 percent. Ordinary depreciation is at generous rates in the first place.

B. The aforementioned increase in ordinary depreciation is further increased by 80 percent if the company is recognized as a type "A" export contributing corporation or 30 percent if a corporation is recognized as a type "B" export contributing corporation.

If a corporation satisfies both of the following two conditions, such a corporation will be recognized as an "A" export contributing corporation; if condition (1) is satisfied, but (2) is not, the corporation will be recognized as a "B" export contributing corporation:

(1) The first condition is that export sales for the immediately preceding year increased 1 percent or more over export sales for the year immediately prior to that year.

(2) The second condition is that the ratio of export sales to total revenue for the immediately preceding year exceeds such ratio for the year immediately prior to that year, or the increase in exports as a percentage exceeds two-thirds of the Nation's increase in exports, also stated as a percentage.

In other words, the factor used to establish whether or not a company is entitled to the extra depreciation over and above that provided by merely having exports includes consideration for both the amount of the increase in exports and the ratio of exports to total sales.

For example: Assuming a percentage of export sales against total revenue of the preceding year of 80 percent.

	Rank of corporation		
	(A)	(B)	Other
Maximum ordinary depreciation	\$100,000	\$100,000	\$100,000
Rate of accelerated depreciation (percent)	[1] (128)	[2] (104)	(80)
Accelerated depreciation	\$128,000	\$104,000	\$80,000
Total	\$228,000	\$204,000	\$180,000

[1] 80 percent×160 percent=128 percent.
[2] 80 percent×130 percent=104 percent.

The "special depreciation reserve" must be restored to taxable income in each of the next succeeding 10 years at a minimum rate of 10 percent of the amount credit to the reserve. Thus, the relief is a deferral of taxes and increased cash flow.

Reserve for development of overseas markets

A. A corporation is allowed a tax deduction for a reserve for development of overseas markets to the extent of 1.5 percent (in case export of goods purchased from others, 1.1 percent if capital is more than ¥100 million) of export sales in the immediately preceding year.

The rates are increased from 1.5 percent to 2.4 percent for a type "A" export contributing corporation, and to 1.95 percent for a type "B." The same conditions as those mentioned previously govern the type "A" or "B" classification.

There is a decrease in these rates if the export is of goods purchased from others and an increase if the corporation is capitalized at less than ¥100 million.

B. The reserve is required to be restored to income, for tax purposes, at the rate of 20 percent of the amount originally provided, in each of the next succeeding 5 years. Thus, this provision represents a tax deferral mechanism. This reserve is not deductible for enterprise tax purposes.

Export allowance

A corporation may take an income deduction to the extent of the amount computed by applying various percentages to certain consideration earned in foreign currency during each qualified current accounting period. In most cases, the maximum deduction is 50 percent of taxable income for the period.

A. 20 percent of the consideration for rendering services regarding survey, and/or research, planning, advice, drawings, supervision or inspection for construction of manufacturing facilities, et cetera, which require scientific technical knowledge.

B. 30 percent of the consideration for transfer of motion picture films, copyrights and 30 percent of motion picture distribution revenue earned abroad.

C. 70 percent of the consideration for transfer and/or supplying of industrial technology, know-how, et cetera, created by a corporation.

D. 3 percent of the consideration for freight revenue on certain overseas export ship operations and repairing, processing, or construction services. Although deduction is not allowed for enterprise tax purposes, this item represents a permanent tax savings.

Export related entertainment expenses

There is a generally severe limitation on the deductibility of entertainment expenses for tax purposes in Japan. Ordinarily a deduction is limited to about $11,000 per corporation plus one-quarter of 1 percent of capital. The deduction for entertainment expenses in excess of this is limited to 40 percent of the expenditure. However, a reasonable amount of overseas and/or domestic travel and hotel expenses in Japan paid for nonresident visitors and entertainment expenses incurred abroad in connection with export transactions are not treated as entertainment expenses for purposes of determining the deductible amount of entertainment expenses, and are fully deductible for corporate income tax purposes.

THE NETHERLANDS

Foreign establishments and subsidiaries

Tax relief is granted to Dutch companies for certain foreign source income, including income derived through foreign branches and dependent agents and subject to foreign taxes. No minimum functions or payroll is required for the foreign establishment and the rate of foreign tax on such income is immaterial.

The undistributed income of a foreign sales subsidiary is not subject to Dutch tax currently. Dividends received from such subsidiaries are exempt in the Netherlands where the Dutch company owns at least 25 percent of the paid-in-capital of the foreign subsidiary.

NEW ZEALAND

Special export deductions

Certain expenditures incurred in promoting the export of goods and services, rights in patents, trademarks, and copyrights, in addition to being an ordinary business deduction, qualify in certain circumstances for a further reduction of 50 percent additional to the actual cost.

In addition, 15 percent of the increase in a firm's exports of manufactured goods over a previous base period can be deducted from gross revenue for corporate tax purposes.

NORWAY

Foreign branches and subsidiaries

Income from operation of a permanent establishment abroad is reduced by 50 percent for purposes of Norway's income tax. The income of a foreign sales subsidiary is not taxed until distributed to Norwegian shareholders. A special election provision permits Norwegian shareholders to be taxed currently on 50 percent of the earnings of a foreign subsidiary with the dividends from such subsidiary being exempt from Norwegian tax.

Export market development reserve

A tax-free reserve of up to 20 percent of taxable income each year may be established for purposes of future market development abroad to assist Norwegian exports. No similar reserve is allowable for domestic market development. The taxpayer must show evidence to the authorities that the allocated amount has been used for approved measures within 5 years from the date of allocation.

SOUTH AFRICA

Foreign source income

Foreign source income from a foreign permanent establishment or foreign subsidiary is exempt when received by a South African corporation.

Exporters' allowance

An extra deduction from income of a percentage of market development expenditures is permitted for exporters. The percentage varies from 50 percent to 75 percent. Qualifying expenditures include market research, advertising, solicitation of orders, providing samples and technical information, preparing tenders and quotations and to certain sales commissions and fees. The foregoing expenditures are entitled to deduction as ordinary expenses and the additional percentage is also permitted as a deduction whether or not there were any exports; if the current year's exports exceed those of the preceding year, the percentage is increased.

EXPORTERS' ALLOWANCE PERCENTAGES

Tax year	If no increase in turnover	If current year's export turnover exceeds preceding year's turnover— By more than 10 percent but not more than 25 percent	By more than 25 percent
1963–67	25	37½	50
1968	37½	50	62½
1969	50	62½	75
1970	50	62½	75

SPAIN

Export reserve

Spain permits the creation of an export reserve to which between 30 percent and 50 percent of the profits derived from exports may be transferred. Income taxes on such reserve are deferred as long as the amount is invested in machinery and equipment and other assets and activities related to exports.

SWITZERLAND

Foreign subsidiaries and establishments

The earnings of foreign subsidiaries of Swiss companies are not subject to current income taxation and dividend distributions are exempt from Swiss Federal income tax and from most cantonal and local income taxes.

A foreign branch of a Swiss company is also exempt from Swiss Federal income taxation on income allocable to such branch, although the rate of tax is determined on the basis of the total profits of the company including its foreign branches.

Cantonal arrangements

Certain cantons offer export incentives under their cantonal tax laws and certain cantons offer export trading companies reduced tax rates on a negotiated basis. Intercompany pricing arrangements are also subject to agreement on a basis favorable to exporters. As a result, Switzerland has become a leading center for export sales companies which are subject to nominal taxes on export income.

UNITED KINGDOM

Foreign sales subsidiaries

The income of foreign sales subsidiaries of United Kingdom companies is not taxed until distribution to a resident United Kingdom shareholder.

Investment grants

Under the Industrial Development Act of 1966 cash grants are made in respect of capital expenditure on new plant or machinery for use in Great Britain in the manufacturing, extractive, and construction industries. The rate of grant is 20 percent. If the investment is in a "development area" the rate becomes 40 percent. The investment grant scheme is administered by the Board of Trade, which may accord additional incentives for industry in the designated "development areas." Tax exempt grants have been received by United Kingdom manufacturing affiliates of United States companies presumably manufacturing for sale not only in the United Kingdom but in the EFTA trade area and elsewhere.

Overseas Trade Corporation (1958–66)

In 1958, the United Kingdom adopted an Overseas Trade Corporation provision in its tax laws which exempted qualifying corporations, incorporated in and managed from the United Kingdom, from tax on their retained "trading profits," as distinguished from investment profits. Essentially, this provision was intended to defer the tax on earnings arising principally from export sales. Upon distribution to British shareholders, the profits were taxed in the same manner as other dividend profits. This legislation was repealed in 1966, as part of a general tax reform.

VENEZUELA

Exemption of foreign source and export income

Foreign source income of a Venezuelan corporation is ordinarily exempt from income tax in Venezuela. Export sales of Venezuelan manufactured products may be exempted by agreement for a period of 10 years. To obtain such agreement, the exporter may be required to reinvest profits on such exports in Venezuela.

Rate reduction in exports of extractive industries

A special provision provides for a reduction of 0.25 percent of taxable income for each 1-percent increase in gross income from the exportation of minerals or hydrocarbons and related products over the average of the preceding 2 years. This reduction is limited to a maximum of 2 percent of taxable income in any year, with a 3-year carry forward.

Company and Industry Responses to DISC Proposal, October 9, 1970

Since the DISC proposal was formally presented on May 12, 1970, the Treasury Department has received comments from hundreds of American producers, manufacturers, export merchants, service companies, and financial institutions, either directly or through their trade associations. The tenor of these comments has been overwhelmingly in favor of the DISC concept. The following is a list of selected companies with paraphrases of their comments on the DISC:

Monsanto Chemical (St. Louis, Mo.).—Very beneficial to U.S. exports.

Emerson Electric (St. Louis, Mo.).—Enthusiastic.

MWM Co. (Detroit, Mich.).—Very much enthused—will be able to increase exports by at least 10 percent in first year, 5 percent each year thereafter.

ITE Imperial International (Chicago, Ill.).—Attractive proposal for international companies interested in expanding exports.

S. & C. Electric Co. (Chicago, Ill.).—Would improve ability to compete in foreign markets.

Tee-Pak Inc. (Chicago, Ill.).—We approve—DISC would go a long way toward encouraging U.S. exports regardless of company size.

Princeton Applied Research Corp. (Princeton, N.J.).—Especially helpful to small, technically oriented firms. This would expedite our growth in exports. We project an expansion of our U.S. production facilities to aid us in penetrating export markets. In view of the current economic climate, DISC provides significant help for financing this expansion.

Dymat International Corp. (Sherman Oaks, Calif.).—Very important impact—will strongly motivate businessmen to increase export sales—will have this effect on us.

Atlantic Chemical Corp. (Nutley, N.J.).—DISC arrangement needed to help us regain lost export markets by equalizing existing tax bias against U.S. exports; 3 to 5 year startup time.

Culligan Inc. (Northbrook, Ill.).—Will place us in a more competive position in export markets—we extend our support.

Yellow Springs Instrument Co., Inc. (Yellow Springs, Ohio).—I speculate that the existence of such a vehicle would tend to increase the export of our domestic production.

International Hospital Supply, Corp. (New York, N.Y.).—We could very well increase our export business from 50 to 100 percent if we had such a tax deferral. We have lost many orders which we know we could have realized had we had the benefit of this type of a Treasury law at the time of negotiations. We heartedly support the DISC proposal.

Cargill, Inc., Law Department (Minneapolis, Minn.).—In favor—would have significant impact in helping us to compete in increasingly competitive wheat, feed, grain, and oil seed markets abroad.

National Bank of Washington (Tacoma, Wash.).—Our bank will be following the progress of the DISC with a view of active participation by depositors.

San Diego International Services (San Diego, Calif.).—The consensus among clients was heartily in favor of the program being adopted and strong in the belief that it will enhance the climate for U.S. exports and give many basis for expanding sales effort and plant expenditure.

Sun Chemical Corp. (New York, N.Y.).—Would substantially increase our export of the goods we manufacture. Would permit us to become more competitive in the markets where we have potential customers. Our expanded export market would utilize our present excess production capacity and would result in an increase of our future capacity.

International Controls Co. (Warrenton, Pa.).—The result is obvious. We need more working capital in the form of accounts receivable to continue our international sales efforts. The DISC program will be a major step in that direction. Without it, our activities must be curtailed.

Union Carbide Corp. (New York, N.Y.).—Based on almost 50 years of export experience, we believe that it should provide real incentive and stimulus resulting in a significant expansion of exports.

Monroe Auto Equipment Co. (Monroe, Mich.).—DISC would be of tremendous asssistance in increasing our participation in the international market and would be a great incentive for American companies to supply their world markets from U.S. plants.

North American Rockwell (Pittsburgh, Pa.).—Can be a very meaningful incentive for U.S. exports.

Erie Manufacturing Co. (Milwaukee, Wis.).—It is my belief, that with such a program we could increase our export sales as much as 20 percent in a relatively short period of time. We believe that we can compete effectively in world markets on the basis of the quality of our product, if tax advantages enjoyed by foreign competitors are neutralized.

Kaiser Aluminum & Chemical Corp. (Oakland, Calif.).—Would, no doubt, be an important consideration in formulating future foreign investment policies and would tend to serve to stimulate and increase our exports of U.S. manufactured products.

Lockheed Aircraft International, Inc. (Los Angeles, Calif.).—The DISC proposal represents, in our judgment, a significant incentive to foster the exportation of U.S. goods and services.

Chicago Rawhide Manufacturing Co. (Elgin, Ill.).—It will provide incentive for exporters to more aggressively seek out new export opportunities which can only result in a significant improvement in the foreign exchange position of the United States.

Weyerhaeuser Co. (Tacoma, Wash.).—The proposed export incentive legislation involving the Domestic International Sales Corp. proposal, in my view is a tremendous step forward and we give it our enthusiastic endorsement.

Sillcox Air Conditioning Corp. (New York, N.Y.).—We are all for the DISC proposal—it is a beginning and would certainly be helpful. Firms like us require the support, representing as we do some 30 U.S. manufacturers helping to support U.S. labor and trying to increase the balance of payments by direct shipments from here. DISC would enable us to enlarge our overseas sales activities which we project would increase our export sales by a minimum of $1 million.

Socar Trading Co., Inc. (Greenville, S.C.).—Our complete capitalization and operational expenses are directly allied to the export effort for our principals and their products. DISC will free otherwise reserved monies for tax earnings to finance overseas importers, parent companies, and so forth, to further the upsurge of exports from the United States.

Joseph Stanley Co. (River Forest, Ill.).—The American exporter is at a tremendous disadvantage for many reasons in comparison to the foreign exporters in Europe, Canada, Japan, et cetera. The creation of a domestic international sales corporation is a step in the right direction, and we heartily endorse this proposal.

American Micro-Systems, Inc. (Santa Clara, Calif.).—The DISC proposal, if it becomes law, would probably enable us to develop a participation in the European market earlier than planned as well as increasing our exports to the Far East. We offer our support.

Cariboo-Pacific Corp. (Tacoma, Wash.).—The DISC program can become a vital factor in our country's ability to cope with its competitors in world trade. Top management in these companies has been alerted to the potential value of the DISC program, and has expressed hope that it will become viable in a relatively short time.

Soiltest, Inc. (Evanston, Ill.).—This type of arrangement would be very effective for our company. Would enable Soiltest to be more competitive in the international markets and to retain jobs for our employees in the United States and actually increase the number of U.S. jobs.

Medica International, Ltd. (Chicago, Ill.).—The DISC legislation will benefit U.S. exporters and achieve the objective of an overall increase in U.S. exports despite the negative impact of inflation.

Van Waters & Rogers (San Francisco, Calif.).—American companies need this approach to compete more favorably aggressively and profitably in the world market.

Superior Air Products Co. (Newark, N.J.).—We are getting much more competition from Germany and Japan because of their direct or indirect assistance to their exporters. We believe that we should have comparable assistance from our own Government to allow us to continue to compete in the world market.

The following is a list of other companies that have written to support the DISC principle:

Hendrickson International Corp. (La Grange, Ill.)
Shure Brothers, Inc. (Evanston, Ill.)
United Export Corp. (South Bend, Ind.)
Finnigan (Palo Alto, Calif.)
Pacific Airmotive Corp. (Burbank, Calif.)
Princeton Gamma-Tech., Inc. (Princeton, N.J.)
Merck & Co. (Rahway, N.J.)
Commercial Solvents Corp. (New York, N.Y.)
Atlas Chemical Industries, Inc. (Wilmington, Del.)
Circuit Foil Corp. (Bordentown, N.J.)
Vaughan & Bushnell Manufacturing Co. (Hebron, Ill.)
Kimberly-Clark Corp. (Neenah, Wis.)
American Equipment Co. (Chicago, Ill.)
American Express Co. (Chicago, Ill.)
O.N.C. Motor Freight System (Palo Alto, Calif.)
Gilson Brothers Co. (Plymouth, Wis.)
Honeywell, Inc. (Minneapolis, Minn.)
The Anderson Co. (Anco) (Gary, Ind.)
Dana World Trade Corp. (Fort Wayne, Ind.)
International Harvester Co. (Chicago, Ill.)
Matheson Scientific (Chicago, Ill.)
Stewart-Warner Corp. (Chicago, Ill.)
Aeroglide Corp. (Raleigh, N.C.)
Franklin Electric (Bluffton, Ind.)
don Rancho-California (Ontario, Calif.)
General Binding Corp. (Northbrook, Ill.)
Square D Co. (Park Ridge, Ill.)
Skokie International Inc. (Evanston, Ill.)
Collins Machinery Co. (Monterey Park, Calif.)
Borg-Warner Corp. (Chicago, Ill.)
Massey-Ferguson, Inc. (Des Moines, Iowa)
Akron Tire Supply Co. (Akron, Ohio)
The Vendo Co. (Kansas City, Mo.)
Nuclear Data, Inc. (Palatine, Ill.)
John Oster Manufacturing Co. (Chicago, Ill.)
Mallinckrodt Chemical Works (St. Louis, Mo.)
Western International Trade Corp. (Palo Alto, Calif.)
John Fluke Manufacturing Co., Inc. (Seattle, Wash.)
Gehl Co. (West Bend, Wis.)
Gelman Instrument Co. (Ann Arbor, Mich.)
Belshaw Bros., Inc. (Seattle, Wash.)
American Photocopy Equipment Co. (Evanston, Ill.)

The ARO Corp. (Bryan, Ohio)
Neslo Manufacturing Corp. (Doylestown, Pa.)
Northrup, King & Co. (Minneapolis, Minn.)
Helene Curtis Industries, Inc. (Chicago, Ill.)
Libby, McNeil & Libby (Chicago, Ill.)
GREFCO, Inc., (Los Angeles, Calif.)
Lamb-Grays Harbor Co., Inc. (Hequiam, Wash.)
Dynatower Crones, Inc. (Lake Forest Ill.)
Panduit Corp. (Tinley Park, Ill.)
Hewlett-Packard (Palo Alto, Calif.)
Carrier Corp. (Syracuse, N.Y.)
Kaempen Industires Inc. (Orange, Calif.)
Swift & Co. (Chicago, Ill.)
Byerly & Associates (Houston, Tex.)

The Treasury also received a number of letters from trade associations and chambers of commerce in support of the DISC principle, including the following:

Scientific Apparatus Makers Association (Washington, D.C.)
Minnesota World Trade Association (Minneapolis Minn.)
World Trade Club of Saint Louis, Inc. (St. Louis, Mo.)
International Trade Development Association (Doylestown, Pa.)
Institute on U.S. Taxation of Foreign Income, Inc. (New York, N.Y.)
Colorado Regional Export Expansion Council (Denver, Colo.)
Manufacturing Chemists Association (Washington, D.C.)
American Paper Institute (New York, N.Y.)
Federation of Rocky Mountain States, Inc. (Denver, Colo.)
American Cotton Shippers Association (Memphis, Tenn.)
National Constructors Association (Washington, D.C.)
National Foreign Trade Council, Inc. (New York, N.Y.)
Machinery and Allied Products Institute (Washington, D.C.)
National Association of Manufacturers (New York, N.Y.)
National Export Expansion Council
Foreign Trade Association of Southern California (Los Angeles, Calif.)
Washington State International Trade Fair (Seattle, Wash.)
Council of State Chambers of Commerce (Washington, D.C.)
Labor-Management Industry Committee for Domestic Motion Picture Production
California State Chamber of Commerce (Sacramento, Calif.)

Mr. COHEN. Thank you, Mr. Chairman.

I have a brief summary of it which I could submit, with your permission.

The CHAIRMAN. Go right ahead.

DISC PROPOSAL

Mr. Chairman and members of the committee, I appreciate the opportunity to appear before the committee to describe our Domestic International Sales Corp. or DISC recommendation and to urge its approval by the committee.

We make this recommendation because the U.S. tax system presently results in an income tax disadvantage to U.S. export sales as contrasted with foreign production by subsidiaries of U.S. companies, or by foreign-owned companies. At a time when the United States is making every effort to improve its balance of trade, this disadvantage should be removed.

The DISC proposal provides for deferral of U.S. tax for a domestic corporation engaged in export sales similar to that presently provided for foreign manufacturing subsidiaries of U.S. companies.

The DISC proposal is now before the committee in the form of title IV of amendments No. 925 and 1009 to H.R. 17550. The House Ways and Means Committee has reviewed this proposal in detail and reported it to the House favorably as title IV of H.R. 18970.

All of these provisions are identical and I will simply refer to them as the DISC bill.

We strongly support the provisions of the DISC bill which recognize the importance of a change in the income tax rules applicable to U.S. export.

I would like to summarize the main features of the proposal as set forth in the DISC proposal. We think that it is simple in concept. The Internal Revenue Code would be amended to provide for a new category of domestic corporation to be known as a Domestic International Sales Corp. (a "DISC"). The U.S. tax on the export income derived through such a corporation would be deferred as long as it is either used in the corporation's export business, is loaned to export producers or invested in obligations issued or guaranteed by the Export-Import Bank and thus is not distributed to the DISC's shareholders.

Upon the distribution of dividends from the DISC, the income would be fully taxed at full corporate tax rates in the case of corporate shareholders, and at full personal income tax rates in the case of individual shareholders.

The qualification requirements are that a DISC must be a domestic company, must have 95 percent of its receipts in the form of qualified export receipts, must have 95 percent of its assets in the form of qualified assets, must have only one class of stock and a minimum capitalization of $2,500, and must have made an election to be treated as a DISC.

Exports are determined by a destination test rather than a passage of title test as presently in the Internal Revenue Code.

To qualify as an export the property must be sold or leased for direct use, consumption or disposition outside of the United States, or sold to an unrelated DISC for export by the latter. To qualify as export property, not more than 50 percent of the fair market value of the property exported can be attributable to articles imported into the United States. The President will be authorized to exclude from the definition of export property any property determined to be in short supply domestically.

A DISC may reinvest its export earnings in the export business. This would include investments in warehousing, assembly, and transportation facilities used in its export business, and also investment in foreign branches or sales subsidiaries under specified circumstances.

We have in essence viewed the DISC as a partner with the U.S. producers exporting to foreign markets. Therefore, a principal provision of the proposal permits a DISC to invest its accumulated export income by way of loans to domestic producers, whether or not related, to finance the producers' export-related assets used in the production.

Thus if a producer exported 20 percent of his production the producer would be entitled to have loans from the DISC outstanding at any time equal to 20 percent of the producer's assets.

Present rules for pricing between related companies represents substantial problems for taxpayers and the Internal Revenue Service in the administration of the tax law, and are far harsher than those enforced by many foreign countries.

In formulating our DISC proposal, we have contemplated that a substantial volume of sales will occur between manufacturing companies and related DISC corporations.

In order to deal with these problems, the proposal contemplates that transfer pricing on the inter-compa"" sales used to determine foreign source export income will be accept .d where the result allocates income on export sales to the DISC up to 4 percent of qualified export receipts, plus 10 percent of the DISC export promotion expenses, or allocates up to 50 percent of the combined taxable income of the DISC and a related supplier, plus 10 percent of the export promotion expenses, whichever of these two calculations results in a higher amount.

Similar rules would be prescribed in the case of commission and rental agrenmtese.

In order to insure that ordinary income is not converted into capital gains, any gain on the sale of DISC stock would be treated as ordinary income to the extent of accumulated DISC income.

While the provisions of the DISC bill are not identical to the original proposals of the administration, we give our full support to these provisions as now contained in the bill.

Some minor technical problems have been suggested and we have discussed this in general with the staff of the Joint Committee on Internal Revenue Taxation, and it was agreed that we will give immediate consideration to these technical matters and develop any amendments which may be warranted by them.

We, therefore, urge that this committee give its approval to the DISC bill.

Thank you, Mr. Chairman.

The CHAIRMAN. We will include at this point in the record a statement on the DISC proposal submitted by the Honorable Stanley Surrey, former Assistant Secretary of the Treasury for Tax Policy. We all know the high honor with which he served in that post.

(The statement referred to follows. Hearing continues on page 45.)

SUMMARY OF ARGUMENTS AGAINST DISC PROPOSAL—SUBMITTED BY STANLEY SURREY

I. Proposal eliminates an ent' e activity—exporting—from income tax.

II. Proposal involves a revenue loss of $1 billion over the next three years and more than $1 billion annually thereafter—$2 billion in 1971–1974. This is at a time when the Treasury is seeking to raise taxes elsewhere and to restrict expenditures in important social and urban legislation.

III. This sweeping exemption of export income, with its resulting large revenue loss, is taken without any presentation by the Treasury of any economic study or data to demonstrate why, where, and how this step will increase our export trade. Indeed, the revenue loss will far exceed any possible benefits to our export trade.

IV. Proposal involves tax reduction for our largest corporations. This is at a time when the Treasury is seeking to raise taxes on all others—taxes on telephones, automobiles, gasoline.

V. While Proposal is phrased in terms of "deferral of tax" and for "export profits"—it becomes complete exemption and for much more than export profits, reaching into manufacturing profits.

VI. Proposal provides corporations with tax-free money for domestic use—of foreign investment—having nothing to do with exports.

VII. Proposal, though described in terms of domestic export subsidiaries, will in reality encourage foreign subsidiaries and bring back tax-haven operations.

VIII. Proposal is inconsistent with our other tax rules and does not find any parallel in the tax rules of other countries.

IX. Proposal is likely to cause foreign retaliation and emulation which will hurt our trade balance.

X. Proposal is complex, with many surveillance problems and many inroads on existing rules, so that its weaknesses and further loophole potential will be fertile hunting ground for tax avoiders.

XI. Proposal is contrary to 1969 tax reform efforts.

The DISC Proposal To Subsidize Exports

The Trade Bill pending in the House contains a tax Proposal, called DISC, designed to subsidize exports through freedom from income tax. This memorandum outlines arguments why the Proposal is undesirable.

I. PROPOSAL ELIMINATES AN ENTIRE ACTIVITY—EXPORTING—FROM INCOME TAX

The DISC Proposal is intended to exempt as much as possible of the export trade of the U.S. from income tax for a lengthy period, perhaps indefinitely. Such a major change in our tax system is contrary to the basic concept of an income tax, has no counterpart elsewhere in the world, and is a complex, costly, and undesirable step.

The Proposal in effect exempts an entire commercial activity from the U.S. income tax. On its face, such a sweeping change seems wrong in itself—"exporting" is suddently made free of tax. Such a step, if taken at all, should be taken only on the soundest of arguments, on the basic of careful and full documentation, on an analysis that clearly demonstrates—not just states—that the United States will realize demonstrable benefits from the step, and that no alternative of direct assistance is available and feasible. There is no such showing here.

II. PROPOSAL INVOLVES A REVENUE LOSS OF $1 BILLION IN THE NEXT THREE YEARS AND MORE THAN $1 BILLION ANNUALLY THEREAFTER

The DISC Proposal is no minor tax measure. The Congressional Tax Staff place the annual revenue loss at $720–955 million in 1974, when the Proposal is fully effective after a transitional period, and increasing thereafter. This is the loss that will occur even if the Proposal does not stimulate an additional dollar of exports. It is a built-in, inevitable revenue loss since the Proposal provides a tax subsidy for *existing* exports and is not limited to the export growth, if any, induced by the subsidy. Even in the transition period, 1971–1973, the Proposal will lose a $1 billion dollars. Thus in the four years 1971–1974 the Proposal involves a $2 billion revenue loss.

This revenue loss occurs at a time when the Administration is pressing for *more taxes* because of fiscal needs. It is seeking to extend the tax on telephones and automobiles, and to adopt new taxes because of revenue needs—and yet it proposes in DISC to lose $2 billion dollars in revenue in four years.

The Administration continually presses to restrict Congressional expenditures on hospitals, education, pollution control and other important social concerns because of fiscal needs. But in the DISC Proposal it suddenly turns over $2 billion in four years to exporters—most of the money going to our largest corporations. Yet there is no case made—nor can it be made—that such a high and expensive expenditure priority is merited by these exporters and their activities. Nor is there any concrete analysis or data that the revenue loss will achieve demonstrable benefits for the United States—in marked contrast to the recognizable benefits to be achieved through expenditures to meet our social problems—expenditures that must now be kept back to make way for $2 billion to exporters.

III. PROPOSAL NOT SUPPORTED BY DATA, ANALYSIS, OR ECONOMIC STUDIES

In the public presentation of this proposal by the Treasury, and in the Ways and Means Committee Report describing it, there was no study presented, no data made available, no economic case put forth to demonstrate the effect of this subsidy to the export trade and to demonstrate why, where, and how the purpose of the subsidy—an increase in U.S. exports beyond what would result in the absence of the subsidy—will be accomplished.

The House Ways and Means Committee Report says the "Treasury has estimated that overall the additional exports generated by the proposal, when it is fully effective, will increase by $1¼ to $1½ billion a year on the average" (p. 18). There is no public documentation—which others can examine—to support this statement. There is no indication as to the goods, the areas, the activities in which the increase will occur. There is no economic analysis of just why and how the increase will come about, as compared with hoping or asserting it will come about. Is it through lower prices? (but since lower prices initially reduce our export volume, just how we will get an increase in exports that not only offsets the initial decrease in dollar volume but also provides an affirmative increase sufficiently large to justify the revenue loss involved). Is it through a better "image" for exports ("it's tax free"), and hence increased activity and thinking about exports? (but will these psychological factors really move our agricultural exports over European barriers and direct subsidies, or move many of our consumer goods past the hurdles of competition?)

The prime basis for the Proposal—and the Treasury's belief that it will increase exports—seems to be in these words of Secretary Kennedy, quoted (p. 18) in the Committee Report:

"I believe this shift in taxation would help signal to industry that improved export performance is a national objective of high priority; it would help build the consciousness and attitudes toward exports that this country has been sorely lacking."

The "signal" and the "consciousness" come at a $2 billion price over four years. Where else is Congress spending so much money on so intangible a ground? No expenditure program—even a minor one—would be presented to the Congress or adopted by it on the basis of such a woefully inadequate, almost non-existent, supporting case. Yet since this is a "tax incentive", the Treasury presumably feels that it is permissible to spend $2 billion without even the support that an expenditure program of a few million dollars requires.

Very few experienced companies are *publicly* testifying or demonstrating that the subsidy will increase their exports, and indeed, the contrary seems more likely. Thus, E. I. duPont de Nemours & Co., Inc. says: "We would not be able to testify that duPont could expect to increase its exports through the use of a DISC". Libby McNeill & Libby states: "While certainly it would be better than nothing and perhaps could be used to advantage in new situations, it does not deal with the real reasons for our balance of payments difficulty, probably would not be very effective in reversing patterns that already exist." —hardly a testimonial on which to start spending $2 billion in four years! (The above are from the letters Sen. Percy included in the Congressional Record of June 1, 1970. Indeed, in those letters while many companies say they like DISC and it will reduce their taxes, the letters are noticeably lacking in any hard, specific facts and details on just how the Proposal will help exports).

Even accepting the Treasury's guess of $1-¼ billion in increased exports "when the Proposal is fully effective," as a Minority Report asks: What kind of a deal is this?—the Government will be spending, on the Congressional Tax Staff figures, at least over $3 billion to achieve this increase of a little over $1 billion. Indeed, the Treasury may be spending more since the Treasury really doesn't say when the increase is to be achieved. Secretary Kennedy, when he presented the Proposal, said its effect "*should* be to generate *over time* a level of exports a billion dollars or more greater than might otherwise develop" (underlining added). (The House Committee Report, using the phrase "when it is fully effective", is no more definite, for it merely says that the increase in exports will occur when the Proposal has exercised its effect in stimulating exports—but *when* is this).

We must remember that as against this problematical (*should* generate, not *will* generate) indefinite export increase, the U.S. will be losing $1 billion (under the Congressional Tax Staff figures) during the transition and thereafter $1 billion or more annually in revenue—these revenue losses are an *actual*, not problematical, matter. How many annual losses of $1 billion or more will occur before we see the increase in exports, and what will the total balance sheet add up to of revenue loss as against exports added—the Treasury presentation is silent on this.

IV. PROPOSAL INVOLVES A TAX REDUCTION FOR OUR LARGEST CORPORATIONS

The subsidy and revenue loss will in large part go to our largest corporations and represent a windfall to them. It becomes tax reduction for the 100 or so of our largest corporations who account for a major share of all U.S. exports—the

Minority Report states that about half of our manufacturing exports alone are made by 93 companies. Such a reduction and such an expenditure are not in keeping with our fiscal situation or our national priorities.

The Administration is seeking new revenue sources now and talking of new revenue sources in 1971. A tax reduction for *major corporations*—an annual revenue loss of $1 billion or more—is not in keeping with a desire to seek increased taxes to improve the fiscal position. The Administration is seeking to *raise the taxes on everyone*—it wants to extend now the taxes on automobiles and telephones and apply a new tax to leaded gasoline, and is talking of a national sales tax in 1981—yet it is pressing to *reduce now* the taxes of major corporations.

V. WHILE PROPOSAL IS PHASED IN TERMS OF "DEFERRAL OF TAX" AND FOR "EXPORT PROFITS"—IT BECOMES COMPLETE EXEMPTION AND FOR MUCH MORE THAN EXPORT PROFITS, REACHING INTO MANUFACTURING PROFITS

The Proposal stresses that it will just *defer* the tax on *export profits*. But clearly the Treasury does not expect a mere few years deferral, for it recognizes that businesses will not alter their operations and organization for that. So the Proposal must envisage a long period of deferral. Such a deferral becomes the equivalent of exemption.

Indeed, in the description which it previously circulated to business groups, the Treasury said the deferral for export profits would go on for at least ten years and where exports increase—and they do naturally year to year—the period would be longer. But in these days of high interest rates, a postponement of tax—a borrowing interest-free from the Government—is the equivalent of exemption. The Treasury earlier said as much—"deferral for a substantial period reduces significantly the impact of a tax and, of course, deferral that lasts indefinitely can have substantially the same effect as an exception from tax." The NAM in its testimony has described the Proposal just that way: "Its specific purpose is to increase exports by deferring, *perhaps indefinitely*, the U.S. tax on some part of profits from exports." (Italics added)

But even indefinite deferral is not required. At today's high cost of money, the present value of ten years deferral of tax is worth the amount of the tax itself—which makes deferral the equivalent of exemption.

Moreover, the deferral is even extended further under the part of the Proposal that on liquidation or disqualification of a DISC it can spread payment of the tax ten years forward into the future.

The Proposal is presented in terms of deferring tax on "export profits." Presumably it is intended to cover the profit attributable to the sales activities associated with exports. But its specific provisions for the determination of export profits sweep in manufacturing profits as well. Under the arbitrary formulas presented to determine export earnings much—in some cases all—of the manufacturing profits will be freed of tax. Indeed, it is this inroad into the manufacturing profits that attracts most of the supporters.

The formulas used permit exemption for 50% of the difference between cost and sales price, or 4% of the sales price, whichever is greater. In many cases, it is likely that 4% of sales price could place the entire profit on the sale outside of the income tax. For those industries with low rates of return on sales—agriculture for example—the entire profit from manufacture to sale will be completely exempt from tax on goods going abroad. It is clear that far more than export earnings is being relieved of tax. Indeed, for companies selling goods abroad, the tax on the *entire profit from manufacturing and sale* will switch from a 48% rate to, at least no more than 24%, and then may drop even to zero if the profit rate on sales is less than 4%.

Moreover, even where the profit rate on sales is above 4% so that the rule exempting 50% of the profit comes into effect, the use of a foreign sales subsidiary tied on to a DISC can increase that 50% figure to a much higher figure. As a consequence, even here the tax rate on the *entire profit from manufacturing and sale* will be below 24% and somewhere between 24% and zero (See VII below).

In addition, the 50% rule which allocates 50% of the overall profit to manufacturing and 50% to the export sales activities is intended to produce a result more generous to the DISC and its exempted sales activities than would occur under the usual tax rules of pricing applicable to sales by a manufacturer to a distributor. The result is to exempt some manufacturing profit in addition to the profit resulting from the sales activities: the overall rate on the *entire profit from manufacturing and sale* switches from 48% to 24%, with the sale component in effect being taxed at zero and the manufacturing component at less than 48%.

VI. PROPOSAL REALLY MEANS PROVIDING CORPORATIONS TAX-FREE MONEY FOR DOMESTIC USE OR FOREIGN INVESTMENT—HAVING NOTHING TO DO WITH EXPORTS

A DISC is permitted—indeed encouraged—to lend its tax-free income to its parent company to be used to buy plant and equipment, or for research. The loan is costless to the parent. Indeed, this is the key to the Proposal. But the assets obtained through the loan proceeds—or the research done—need have nothing to do with exports. The funds can go entirely to domestic production or—and this is in complete negation of the whole Proposal—*entirely to manufacturing activities overseas*. There is absolutely no tracing of the tax-free income into export activities.

The Proposal permits the DISC to lend its funds at 4% interest to the parent manufacturer. The parent can deduct the 4% interest and the DISC does not pay tax on the 4% interest. The DISC must then distribute to the parent the 4% interest, which is income to the parent. But the income item is offset by the previous deduction of the parent, and the parent also has its 4% interest payment back—so no cost is involved.

The loan can be in the proportion, of the total existing production assets of the parent, that its export sales are to total sales. Hence if a parent has $20 million of facilities, and its export sales are 20% of total sales, $4 million can be loaned by the DISC to the parent. But the $4 million can be used for purely domestic purposes—or for *investment overseas*—that do not relate to exports. There is no tracing required of the loan to facilities or equipment actually used in production for export. This could go on year after year for an established corporation which started with export sales. Indeed, the whole Proposal is geared to this, since a DISC is required to reinvest its funds and most DISCS would soon run out of real export activities on which to use their funds. Hence the permission under DISC to the parent to use the export sales income for its production activities becomes the key to indefinite deferral (House Committee Report, p. 17)—and the absence of tracing becomes the key to use for non-export activities.

The proposal in effect gives financial assistance to companies who have exports even though they do not use the money for export activities. The Statement in the House Committee Report—following the Treasury's explanation—that the "U.S. tax will not be imposed on them as long as they continue to expand their export sales organizations or invest their export income in production facilities to the extent the facilities are used to produce goods in the United States for sale abroad' (p. 16) is simply inaccurate.

VII. PROPOSAL, THOUGH DESCRIBED AS INVOLVING THE USE OF DOMESTIC EXPORT SUBSIDIARIES, WILL IN REALITY ENCOURAGE FOREIGN SUBSIDIARIES AND BRING BACK TAX-HAVEN OPERATIONS

The DISC Proposal is described in terms of the creation of domestic export subsidiaries—Domestic International Sales Corporations. In many cases these will be only shell corporations. At any event, the emphasis in title and description on the "domestic" character of the DISC corporation does not portray the full effect of the Proposal. The technical structure of the Proposal is an encouragement to the use of *foreign sales subsidiaries*—FISC—in addition to the DISC, since a DISC plus a FISC give more tax exemption than a DISC alone. Moreover, the structure encourages the use of tax-haven countries in which to locate the foreign sales subsidiaries. Much of the 1962 anti-tax haven reform legislation is thus discarded and tax-havens are brought back to the scene.

If a DISC buys from its parent manufacturer and sells to a foreign customer, at least 50% of the overall profit is exempt. If the manufacturer's cost, for example, is 50 and the final sales price is 150, then 50 is exempt. But if the DISC creates a foreign subsidiary—FISC—sells to it and lets it sell to the foreign customer, the profit of the FISC when declared as a dividend to DISC is fully exempt. If DISC sells to FISC at 100, and FISC sells to customer at 150, then the FISC profit of 50 is exempt and also half of the DISC profit of 50—a total of 75. The addition of FISC has raised the exempt portion from 50 to 75. (The precise effect, of course, depends on the sale price of DISC to FISC).

The taxpayer's goal, when adding the FISC, will be to locate it in a tax-haven country so that foreign taxes are not a problem. The Proposal permits tax-haven operation for a FISC by here sweeping away the 1962 reform provisions designed to prevent tax-haven abuse. Moreover, the taxpayer will want to keep the DISC price low on sale to a FISC tax-haven, and thus he will become involved in controversies over price with the Internal Revenue Service on a wide scale.

The Treasury presentation did not describe these aspects in detail and the Committee Report does not consider their implications. As a consequence, apparently their effect was not considered in the revenue loss estimates, so that those estimates are on the low side. Moreover, the stimulus to use foreign subsidiaries makes DISC more helpful to the larger corporations than to small business.

VIII. THE PROPOSAL IS JUSTIFIED BY THE TREASURY IN THESE TERMS

(a) Export Income is Partly Foreign Source Income.
(b) Deferral of Tax on Export Income is Similar to Deferral of Tax on Foreign Manufacturing Subsidiaries.
(c) Other Countries Are Not Taxing Exports.

These justifications are not valid

(a) To say that export income is partly foreign source income proves nothing. The U.S. has always taxed income from foreign sources as well as domestic sources when the income is obtained by U.S. corporations and individuals. Royalties, dividends, interest, etc., when paid by foreigners are foreign source income in the same sense, but are taxed when received here in the U.S. by a U.S. corporation. And so export sales to foreigners made by U.S. corporations are taxable—and always have been—though they can be called foreign source income in the same sense.

The treaty policy of the U.S. goes to great lengths to insist that the export income of the U.S. is income to be taxed by the United States and *not* by other countries. That policy therefore seeks to prevent other countries from taxing our export trade and will permit such foreign taxation only where the U.S. exporter is operating through a permanent establishment in the foreign country.

The Treasury says that the DISC "approach is consistent with the basic philosophy of the U.S. tax system" (Statement of Sec. Kennedy). The contrary is the case—it is completely inconsistent with the application of the income tax to export income ever since 1913. It is completely inconsistent with our entire treaty policy since our first tax treaties in the nineteen-thirties.

(b) The fact that our foreign manufacturing subsidiaries are not generally taxed by the U.S. until their income flows to the U.S.—the tax is "deferred"—does not justify this Proposal. For the price of deferral in the case of these foreign manufacturing subsidiaries is payment of foreign income taxes. Those taxes are substantial and in many cases close to—or more than—our own income tax. Deferral for our foreign manufacturing subsidiaries has not meant exemption from income tax—it has meant payment of income taxes to other governments. But the deferral of DISC means exemption from all tax—domestic and foreign—and in no way resembles the treatment of investment in our foreign subsidiaries.

The Treasury says that the *effective froeign tax* rate on all foreign subsidiary operations of U.S. businesses was about 38.6% in 1964. But the DISC "deferral" can mean a *zero* tax. It is very hard to see how a zero tax is *similar to*—the Treasury's words—a 38.6% tax. Even the entire range of possible DISC tax—from zero to 24% (see V above) is considerably below a 38.6% tax.*

Any deferral for our foreign manufacturing subsidiaries, moreover, ends when the income is brought back into the U.S. as dividends, or even when it is still owned by the foreign subsidiary but is invested in U.S. assets such as domestic facilities of the U.S. parent. But the DISC income is already in the U.S. Moreover, it can be invested in U.S. domestic facilities or activities of the U.S. parent having nothing to do with exports—and still it is not taxed.

Moreover, if deferral for our foreign manufacturing subsidiaries is a material benefit and inducement to investment abroad, the obvious course is to end the deferral and leave the U.S. tax system in a neutral posture between investment abroad and investment at home. But this the Treasury will not do. Instead, it says we should keep our tax incentives to investment abroad and then it says we must exempt export income because of the tax incentive to foreign investment. The whole approach is clearly a boot-strapping operation, and one that ends up leaving a large gap in the income tax and being highly discriminatory in favor of those taxpayers engaged in foreign activities as compared with domestic activities.

(c) The Treasury presentation talks of other countries which "defer their tax on export income or exempt such income from tax, to a greater or lesser extent." But nowhere is it flatly stated that other important exporting countries—countries with which the U.S. may be compared—systematically seek to exempt from

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*The 38.6% foreign tax rate on our foreign subsidiaries, referred to by the Treasury, moreover, is an *effective tax rate*, the overall rate on all types of subsidiaries and on all their income. The Treasury then compares that rate with the *U.S. marginal rate* of 48% which it says applies to exports—but marginal rates are different from effective rates. *Foreign marginal* corporate tax rates are often in the 50% or upper forties range—while the *U.S. effective* corporate tax rate in 1965 for all industries was 37.8%. Comparisons that mix up the two forms of rates are not helpful, or accurate.

income tax their entire export trade. The fact is that the exemption inherent in the DISC Proposal goes far beyond the treatment of export income in any comparable country.

The House Committee Report, following the Treasury presentation, states as justification for the Proposal that "A number of foreign countries, for example, have the so-called territorial concept of taxation under which they do not tax foreign source income at all" (p. 16). This is simply inaccurate. Such countries do tax export sales to foreign independent customers. It should be noted that about 85% of U.S. export sales are to foreign independent customers, and there is no indication that foreign patterns differ materially. Here foreign countries *do tax* the profit—but under DISC 50% or even all of the profit *will be exempt*. Where the sale is to a foreign affiliate, such as a subsidiary, some countries may not tax the profit realized by the subsidiary when repatriated to the parent, but they will tax the sale to the foreign subsidiary. But the Proposal will equally exempt the profit of the subsidiary—and then *also exempt* one-half of the sale to the subsidiary.

Moreover, these "territorial approaches" are usually a relic of tax history, traceable to schedular tax systems and colonial trade, with no affirmative intent to subsidize exports. The Finance Ministries of some of the countries using this approach understand its weaknesses and defects and are moving thru tax reforms to reach the present U.S. system. It would be irony indeed for the United States now to take the leadership in setting the tax clock back.

Some foreign countries do have some specific income tax incentives for exports. But the United States should be countervailing against such provisions, should be insisting they are contrary to GATT, and should be taking whatever other action is feasible in negotiation. That should be the U.S. role—and not the role of going much further by exempting all export income from tax and setting in motion a spiral of more and more tax escapes in the export field.

IX. PROPOSAL IS LIKELY TO CAUSE FOREIGN RETALIATION AND EMULATION WHICH WILL HURT OUR TRADE BALANCE

In the Treasury presentation of the Proposal there is no material presented to demonstrate that this sweeping change in our tax rules and the resulting subsidy to exporters will not produce retaliation or emulation in other countries. Such a reaction abroad will tend to offset or exceed any potential gains to our trade balance sought through additional exports stimulated by DISC. If other countries emulate—and why shouldn't they since their exporters will demand equal treatment from their Governments—then the United States, the largest and strongest nation, will have been the leader in exempting export income from taxation over the world and in tearing a big hole in the income tax. The United States, the leading economic country in the world, should not be the instigator of this tax chaos.

If the leading economic country in the world exempts its export trade from income tax, other countries are bound to take action in self-defense. Other countries may see DISC as a violation of GATT—whatever the U.S. Treasury says as to the status of DISC—and resort under GATT to countervailing duties against our exports. Or other countries may decide to emulate us and themselves adopt DISC or some variation—or even some new device—seeking thereby to advance their exports. But whatever the form of the reaction abroad, it is bound to hurt our trade balance and reduce if not remove, or indeed reverse, the export benefits claimed for the Proposal. If it is emulation, then after all the legislation is the income taxes of the exporting countries will not reach the export trade—we will be in the same or worse position as to trade levels but the income tax system will be severely weakened and the strongest country in the world will have led the attack on the income tax system.

Presumably the Treasury believes this Proposal is not contrary to GATT. It is a strange world, however, if this Proposal—seeking completely to exempt the export trade of a country—is not a barred subsidy. It is hard to see what would remain of GATT in the tax area after this step and those taken abroad in retaliation or emulation.

Foreign countries in self-defense will also have to revise their tax treaty rules and other tax rules and administrative practices, which up to now have been beneficial to U.S. exporters. The result will be an increase in the ways by which foreign countries will now tax our exports in situations in which our exports have been previously unaffected by foreign tax systems.

Tax treaties now uniformly exempt an exporter selling goods within a country from that country's income tax unless those activities constitute a "permanent establishment" in that country, a phrase which the treaties define narrowly so as to relieve an exporter from being involved in the tax system of the countries to which he is exporting. This treaty policy rests on the assumption—valid up to now—that the exporter will be taxed in his own country and double taxation can thus be avoided by freeing him of tax in the country of destination. But under DISC the U.S. exporter will no longer be subject to tax, and hence other countries will begin to remove their liberal treatment of the U.S. exporter.

Moreover, where a DISC is selling through a permanent establishment or foreign subsidiary in a country with a significant corporate tax, the DISC will seek to fix the inter-company price at a high level, since the higher the price, the greater the exemption from U.S. tax under DISC. The foreign country, to protect its revenues, therefore must administratively check these DISC prices. Up to now, since the U.S. taxed the export sale, our exporters were largely free from this price check abroad; under DISC they will attract the examination of foreign revenue agents.

Many of the less-developed countries have been seeking to expand their tax systems to reach the profit on exports to their countries, and have sought to chip away at existing international tax standards which exempt exports in the countries of destination unless a permanent establishment exists. Under DISC, these countries will be considerably encouraged in pursuing our exporters, both because of the exemption under DISC from U.S. tax and because the technical rules of DISC treat export income as foreign source income (income arising outside the United States) when the goods are sold for consumption outside the United States. This use of a "destination" rule to determine foreign source income—an approach not used before by the United States—is an open encouragement to those countries to apply the same destination rule and make *our* export income *their source* income and subject to their tax.

X. PROPOSAL IS COMPLEX—WITH MANY SURVEILLANCE PROBLEMS AND MANY INROADS ON EXISTING RULES—SO THAT ITS WEAKNESSES AND FURTHER LOOPHOLE POTENTIAL WILL BE FERTILE HUNTING GROUND FOR TAX AVOIDERS

The Proposal is no simple, readily applicable method of assistance. It is seriously complex—with its complexities and its technical rules likely to grow and grow as time goes on. For taxpayers will want to push more and more income into the DISC device—royalties and services are examples—and seek more and more ways to use the income without disturbing the deferral. The Treasury will have to cast its surveillance over a vast array of activities to seek to confine the deferral to "exports"—goods coming to the United States for processing and then sent out; goods sent abroad for some processing and then returned; foreign subsidiaries of DISC with their own activities that may involve services and other assistance to foreign manufacturing subsidiaries; transportation activities of DISC companies that intermingle exports, imports and all kinds of goods over the world; companies that shift the place of production around and fill foreign orders in the United States but then manufacture abroad for use in the United States (just a switching of the place of manufacture).

The Proposal also cuts across many established rules—for example, it would validate the use of tax-havens all over again.

It is hard to see the justification for so much complexity and gadgetry—it is really impossible to see it in this situation when there is no assurance that any real benefit to the U.S. will come from all of this technical maze.

In all probability, many a tricky maneuver exists in these technical rules. Thus, the formulas for determining export income create more "foreign source income" than would exist under regular allocation rules. Suppose a company with manufacturing subsidiaries abroad creates a DISC, runs its exports through it, distributes the profits each year since it is not concerned with deferral—but by so doing and without actually increasing its exports, does technically increase the amount of "foreign source income" attributed to its existing exports and hence is able under the foreign tax credit rules to use the foreign taxes on its foreign manufacturing to shelter the U.S. income from its exports. The DISC here thus becomes an incentive to help investment abroad, despite higher foreign tax rates on that investment, rather than to increase our exports. (Minority Report, p. 178).

The technical DISC rules will permit a taxpayer, contrary to existing rules, to shift the allocation of some of his costs of production away from exports and attach them to domestic sales, thereby increasing the amount of "export income" exempt under DISC.

XI. PROPOSAL CONTRARY TO 1969 TAX REFORM EFFORTS

The Congress has just spent in 1969 an arduous year in legislating tax reform. Most of the effort went into reducing money spent through the tax system on matters that were not a necessary part of the income tax structure but were backdoor ways of spending Government funds—the use of the tax system for non-tax ends. The Treasury now wants to turn its back on that Congressional effort and spend $2 billion over four years for non-tax purposes, but cloak it as a part of the income tax. If this occurs, some future Congress will have to struggle with removing this tax preference—when the income tax windfall of exempting the whole export trade becomes clear to the public. But why start down this road at all, why reject all that was learned in 1969? If assistance is to be given by the U.S. Government to our export trade, as a priority matter under our budgetary policies, it should be done directly and not as part of the income tax.

The Proposal is a negation of the entire 1969 tax reform effort. That effort showed how hard it is to dislodge tax preferences—tax incentives—once planted in the Internal Revenue Code. Tax history is replete with the cycle of today's tax incentive becoming tomorrow's tax preference and tax loophole. But the entrance into the Code of the incentive—just present it with no back-up study, no analysis, no economic data but only the statement it will help by creating the right image—is in marked contrast with the efforts to dislodge the incentive once its wastefulness and preference aspects become plain to all. For then it is part of the status quo and its beneficiaries will resist any change. This can be especially true in the case of the DISC device, which will require corporate organizational changes and different methods of doing business for all our exporters. Once the business patterns and structures forced by the DISC become imbedded in business operations, it will be extremely difficult if not impossible to alter the DISC tax rules even though those rules simply mean tax reduction for some but no benefit to the United States at large.

The CHAIRMAN. Thank you, gentlemen.

Now, in order to expedite these hearings, I have instructed our staff to arrange that if members of the committee want to interrogate the witnesses at greater length than we can provide for them here, we will provide the conference room as we did with the tax bill and they can interrogate the witnesses at greater length. And we will offer each Senator 5 minutes to interrogate the witnesses and then if he wants to interrogate them further, we will ask the witness to meet him in the conference room and he can ask further questions for the record.

Any questions, gentlemen?

Senator BENNETT. I would like to have a minute or two, Mr. Chairman.

Beginning at the end, Mr. Cohen indicated he has two additional exhibits or additions to his testimony, are they available now?

Mr. COHEN. Senator, they are available now. I do not know in how many copies, but I have copies here.

Senator BENNETT. I would appreciate it if I could have two copies or a copy of your two statements at the earliest possible time.*

Mr. COHEN. I have one that I am sending to you now.

Senator BENNETT. I have a copy of your full statement.

MINK FURSKINS

Mr. Gilbert, in your statement you refer specifically to the mink industry and its problems.

*See pp. 20 and 31.

STATEMENT OF HON. CARL J. GILBERT—Resumed

Mr. GILBERT. Yes.

Senator BENNETT. My State of Utah is probably the largest producer of ranch mink, and I am very definitely interested in this problem. I see some of the newsmen smiling because while mink is a luxury item when it is sold, it is very important in the farm economy of my State. I would appreciate the privilege of asking you some questions in writing.

Mr. GILBERT. Yes, sir.

Senator BENNETT. Specifically, I would like to know what adjustments you would like to have made on the basis of which you would be willing to continue the embargo on Soviet furs, and I would like to ask some other questions.

It is interesting that while the imports are declining the domestic production is also declining, so we have a serious problem in terms of the overall market for American produced mink, and my questions will go to that.

I assume also, on the basis of your statement, that if the inadvertance, which would consider a piece of mink smaller than a cigarette equal to a full skin were cleaned up in the bill, that might eliminate some of your objections to any solution which might give some protection to the American industry.

Mr. GILBERT. It would be helpful.

Senator BENNETT. So, Mr. Chairman, I will ask, and I would ask that they be answered as quickly as possible, hopefully before the committee comes to act on this particular bill.

Mr. GILBERT. Certainly.

(The questions with replies follow. Hearing continues on page 49.)

COMMENTS SUBMITTED BY THE SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS IN RESPONSE TO QUESTIONS FROM SENATOR WALLACE F. BENNETT

Question 1: If that provision of the bill, which you refer to as "inadvertent" on page 15 requiring the counting of scrap pieces of fur in plates, ma's, linings, strips, crosses and similar products having purposes of filling the quota on mink fur skins, should be eliminated or otherwise s(tisfactorily adjusted, what would your opinion be as to the proposed quota of 4.6 million pelts?

Question 2: If it were shown that the proposed quota of 4.6 million (arrived at by taking an average of import volume for the high years of 1967, 1968 and 1969) was unrealistically high, and should therefore be reduced to 3.6 million (arrived at by averaging import volume for the years 1968 and 1969 and estimated 1970) to more truly reflect current conditions, what would your position be toward the revised quota of 3.6 million?

Reply: In the face of the thorough and objective analysis made by the Tariff Commission in 1968, supplemented by recent data from industry and government sources, the Administration does not consider that a tariff quota would be an effective way to stimulate demand or remedy other problems faced by domestic mink ranchers. The basic problem of the domestic mink ranching industry appears to have been causec vy factors other than imports. Imports have declined steadily since 1966, both in absolute quantity and as a share of U.S. Consumption(see attached table). Meanwhile, U.S. production has risen steadily for 15 years, reaching a record level in 1968. The first decline in production since 1953 occurred in 1969, but the decline in imports was greater both in absolute and relative terms. U.S. exports in this period have been growing steadily and reached a record high in 1969.

If a tariff quota is included in the bill, the provision on mink should be amended to take care of the provision requiring that individual pieces be counted as a skin.

Question 3: If subsection A in other provisions, requiring compensating concessions to affected countries, in lieu of the GATT agreements, to what extent would the Administration take into account the existence of hidden, nontariff barriers in those affected countries, crected against our exports, not negotiating those compensating concessions?

Reply: In facing claims for compensation, the Administration takes every relevant factor into account. However, the rules of the game, in the GATT as well as in Section 252 of the Trade Expansion Act, specify that an affected country retaliates against nontariff barriers (NTBs) through established procedures and does not use an NTB as an excuse for implementing a protective device. If tariff quotas are imposed on mink and duties are increased, the United States will have to make compensatory concessions, just as it would demand that others do in similar cases.

Since late 1967 the United States has been pressing a campaign in the GATT to eliminate or reduce the trade restrictive effects of laws, regulations and practices which are labelled as NTBs. Such measures have been indentified, discussed and categorized for further discussion and possible negotiation in the future. It is possible, however, that there are still some "hidden" NTBs which we have not been able to locate (see page 245 of the House Ways and Means Committee print of May 1970 for industrial NTBs), and if so, the Executive Branch would like to have information about them.

The United States also maintains a number of measures which other countries call NTBs (see page 228 of Part I of House Ways and Means Committee hearing record for May 11, 1970). The United States is, therefore, as vulnerable as many others in acting on NTBs.

Question 4: Will the Administration recognize that the decline in domestic production and the decline in the import volume, beginning seriously in 1968, might have been caused by overloading of the domestic market in 1966 and 1967 through excessive, duty free imports, and that this oversupply coupled with low quality skins from abroad has seriously eroded the prestige image of mink and, therefore, the demand in years following?

Reply: The Administration considers that the factors mentioned in question 4 are only a part of the picture and are not adequate to explain the decline in demand for mink. For example, inadequate weight is given to important style or fashion factors that are unrelated to imports. Nor does the analysis take account of broader economic conditions that have slowed demand for luxury goods such as furs, including varieties where imports are insignificant.

While maintenance of the prestige image of mink may be a legitimate objective of private industry, the Administration considers that imposition of import restrictions for the explicit purpose of making a product, considered by most to be in the luxury category, even more expensive to American consumers would not be a legitimate objective of trade policy.

Question 5: Does the Administration recognize that exports, though growing slowly in volume, have suffered from price erosion to the same relative extent that skins sold for domestic consumption have suffered, and that the average prices currently secured for exports reflect zero profit to the producer, being below the cost of production?

Reply: Prices received by exporters of any product on the world market reflect a number of supply and demand factors operating in other countries as well as the United States. To the extent that quotas restricted access to the domestic market, they would tend to cause further price erosion on the world market, not an improvement of exporters' receipts.

Question 6: Does the Administration recognize that imports from Russia and China, whether in the form of raw skins or garments, are sold into the world market without direct relation to cost of production? Is it fair to ask domestic, taxpaying producers to compete on that basis?

Reply: Imports of fur skins or garments from China are now and would continue to be denied entry into the United States under the provisions of the Foreign Assets Control Regulations. In the event that any imports from the USSR are dumped on the U.S. market, effective remedies are available under the U.S. Antidumping Law and the Administration would act to investigate any specific complaints that such practices were injuring U.S. producers.

In determining whether products from countries with state controlled economies are being sold at less than fair value, the Treasury Department can use "constructed value," including production costs, administration and overhead and an addition for profit. If imports of Soviet fur skins were purchased at prices below the constructed value and such imports injured or threatened to injure a domestic industry, special dumping duties could be imposed equal to the difference between the purchase price or exporter's sales price and the constructed value.

Question 7: Does the Administration recognize the tremendous variety of furs available in the free world to domestic furriers and fur workers, without having access to the seven embargoed furs?

Reply: The Administration did not propose repeal of the embargo on the seven types of furs in question. That Section was added by the House Ways and Means Committee. However, the Administration did not oppose the measure because it considers the furriers are disadvantaged in being denied access to furs which can be entered as clothing. No one, including the mink ranchers, benefits from this policy.

Question 8: Does the Administration recognize the tremendous effort and expense made by American producers in creating, building and promoting domestic and world market for an important segment of American agriculture and does it propose that this effort be offered free to foreign producers, and particularly to Communist producers, not subject to our taxes or labor costs and our burdens of market development?

Reply: American industries commonly have large programs to promote sales of their products, many including activities to stimulate demand abroad. More specifically, the Administration understands that substantial outlays have been made by American mink producers for market development. We understand that promotional funds are also spent in the United States by foreign mink interests, although in smaller amounts. Spokesmen for the fur manufacturing industry have indicated that they, too, have carried on a large campaign to stimulate sales. Information on these activities was provided in both the Tariff Commission report and the House Ways and Means Committee. Thus both advocates and opponents of increased protection on mink furskins cite their promotional activities as support for their positions. As for imports from Communist countries, the Administration, as noted above, is on record as supporting high duties on mink fur skins if the present embargo is removed.

Question 9: Isn't it true that the conditions promoting the embargo in 1951 and retained in 1962 are the same today as they were in 1951 and 1962?

Reply: While the Administration did not propose repeal of the embargo, it does not oppose the amendment added to H.R. 18970 by the House Ways and Means Committee. For some years, the United States Government, under both Republican and Democratic Administrations, has supported trade in peaceful goods with the Soviet Union. The present Administration, after careful review, has reaffirmed this policy as being in the national interest. As previously noted, Foreign Assets Control Regulations would continue to prevent exports of fur skins by Communist China to the United States.

Attachment.

MINK FUR SKINS: U.S. SALES, IMPORTS, EXPORTS, AND APPARENT CONSUMPTION, 1953-69

[Volume figures in million fur skins]

Year	U.S. sales (production) [1]			Imports [2]	Exports [3]	Apparent U.S. consumption [4]	Ratio of imports to consumption [5] (percent)
	Ranch	Wild	Total				
1953	2.0	0.6	2.6	1.3	0.4	3.5	34
1954	2.1	.5	2.6	1.4	.5	3.5	37
1955	2.4	.4	2.8	1.7	.5	4.0	40
1956	2.6	.3	2.9	1.9	.6	4.2	43
1957	3.1	.4	3.5	2.8	.9	5.4	50
1958	3.2	.3	3.5	2.6	1.0	5.1	49
1959	3.5	.4	3.9	2.8	.9	5.8	47
1960	3.7	.4	4.1	2.8	1.0	5.9	46
1961	4.0	.3	4.3	4.1	1.2	7.2	54
1962	4.1	.3	4.4	3.8	1.1	7.1	52
1963	4.3	.4	4.7	4.5	1.2	8.0	55
1964	4.7	.3	5.0	4.4	1.0	8.4	51
1965	5.3	.3	5.6	4.9	1.3	9.2	52
1966	5.7	.2	5.9	5.7	1.2	10.4	54
1967	6.0	.2	6.2	5.4	1.4	10.2	52
1968	[6] 6.5	.2	6.7	4.9	1.5	10.1	48
1969	[6] 5.5	.2	5.7	3.7	1.6	7.8	46

[1] For a particular year, the data reported here represent sales by ranchers and trappers of mink fur skins that were obtained almost entirely from peltings during the preceding November and December.
[2] Excludes Japanese mink and dressed mink fur skins which are imported in insignificant quantities.
[3] Includes both undressed and dressed domestic and foreign merchandise.
[4] Sales plus imports minus exports of both domestic and foreign merchandise.
[5] Imports as used here equal imports for consumption minus exports of foreign merchandise, which averaged about 100,000 fur skins annually.
[6] Estimated by the National Board of Fur Farm Organizations.

Source: Sales (production) of ranch-mink fur skins compiled from information submitted to the U.S. Tariff Commission by ranchers and auction houses, except as noted; sales (production) of wild-mink fur skins compiled from official statistics of the U.S. Department of the Interior; imports and exports compiled from official statistics of the U.S. Department of Commerce.

ADMINISTRATION'S POSITION

Senator BYRD. Mr. Chairman, may I ask two brief questions?

I would like to ask whether the administration approves or opposes the legislation enacted by the House of Representatives. That could be answered in one word. And I would like to ask whether the administration approves or opposes the amendments—they are identical—offered by the two Senators from South Carolina.

Mr. GILBERT. I think the only answer I can give, Senator Byrd, is the answer I anticipated to that question earlier. The administration's position is longer than one word.

Senator BYRD. Take whatever words you wish, just so you make it clear, if you would.

Mr. GILBERT. As I put it earlier, the administration continues to support and urge the enactment of the administration's own proposal with the additions that I have commented on. There are certain portions of the House bill which are not only acceptable but desirable.

Senator BYRD. You favor the quota for textiles; is that correct?

Mr. GILBERT. That is correct.

Senator BYRD. You favor the amendment offered by the two Senators from South Carolina?

Mr. GILBERT. Perhaps I am more ignorant than I should be. I was under the impression that the amendment offered by the two Senators from South Carolina was to add the entire House bill as is.

Senator BYRD. That is correct.

Mr. GILBERT. And I think I have attempted to make it clear we cannot accept the entire bill as is.

Senator BYRD. But you do favor the textile provision?

Mr. GILBERT. That is correct.

Senator BYRD. Thank you, sir.

Thank you, Mr. Chairman.

COMMITTEE CONSIDERATION OF TRADE PROPOSALS

Senator FULBRIGHT. Mr. Chairman, may I ask a question? First, I would like to ask the chairman whether he intends to pass upon this bill Monday?

The CHAIRMAN. No; we will be holding hearings Monday. We will continue these hearings Monday.

Senator FULBRIGHT. What is the intention of the chairman about this bill; is it to pass it before the recess on next Wednesday?

The CHAIRMAN. It is the hope of the chairman that we might order a social security bill reported by the conclusion of business on Wednesday. But I doubt that the staff could do the work that would be necessary on just the social security part of it to report the bill on that date. It would take several days to report it.

Senator FULBRIGHT. I am not clear about the status of the bill. Has it yet been voted by the committee to attach it to the social security bill?

The CHAIRMAN. No.

Senator FULBRIGHT. Is it the intention of the Chairman to ask that that be done?

The CHAIRMAN. Well, the Senator from Georgia, Mr. Talmadge, indicated that he and the Senator from Wyoming, Mr. Hansen, intend to offer the amendment to the bill before it is reported, and it has also been made clear by the two Senators from South Carolina if the committee does not do that they would expect to offer such amendments from the floor.

Senator FULBRIGHT. I know they can do anything they like on the floor. I was wondering about the extent of the hearings, whether or not there will be ample time given to those interested. There are a number of people interested in this bill, particularly in my State. I don't know whether it is as important as mink or not, but the United States sells about $750 million dollars worth of whole soybeans every year with my State providing about $72 million dollars worth of these exports. Our principal export go to Japan and other countries which will be affected by the bill. They ought to have an opportunity to be heard.

So I wondered if they will be given a chance to be heard.

The CHAIRMAN. We have some agricultural witnesses today, Senator. We have the Farmers Union listed to testify. Most of the witnesses scheduled are all witnesses opposed to the House proposed bill, the theory being that those who would like to see that bill passed would not want to prevent it from being voted on by demanding the right to testify or prolonging the hearings to the extent that the clock would run out on their proposal.

Senator FULBRIGHT. The only thing I wish to say——

The CHAIRMAN. But there are a few witnesses who will appear in support of the bill as well.

Senator FULBRIGHT. The reason I ask the question is that I never heard him propose before that we would not be allowed to ask questions in open session but we would have to go back into a private room. I never heard this procedure before I would think that those who are interested, would want to testify since it is a very important bill. Many people think it is reminiscent of the Smoot-Hawley bill which has occasioned a great deal of discussion in the last 40 years.

The CHAIRMAN. Senator, I propose that we have a 5 minute period for each Senator to interrogate each witness, and at the conclusion of that if he wants to interrogate the witness further that we use the procedure that we use when we were trying to report the tax reform bill last year. He can interrogate the witnesses as long as he wants to in our conference room and make that a part of the record.

Senator BENNETT. There will be a stenographer there to take down the record?

The CHAIRMAN. We will make a stenographer available to him to take down both his questions and the answers and interrogate the witness as long as he wants to. That procedure was satisfactory to all members of this committee when we were conducting hearings on the tax reform bill. We certainly could not have gotten that bill out within the time limit the Senate imposed on us if we had not used a procedure of that sort. There is no desire to keep the Senator from asking any questions he wants to ask, but it is just a matter of whether he wants to ask them in front of this hearing room or whether he is content to ask the questions of the witness in the room immediately behind us where we hold our executive sessions.

I availed myself of that privilege as did other Senators, when we were hearing the witnesses on the tax reform bill. There were some witnesses, for example, witnesses from the State of Louisiana, that the chairman, coming from that State, wanted to interrogate at greater length but it might not have been of the same interest as other Senators from other States. So that that measure has made it possible to move along with the hearings.

In any event, this is something we are going to have to vote on, ready or not, because we have been told that it is going to be offered.

Senator FULBRIGHT. We did take a little longer on the tax bill than 2 days and there was considerable time for various witnesses. It seems to me 2 days is not very long for a bill of this consequence. But in any case, I wanted to know what the intentions were.

The CHAIRMAN. There are available to us, Senator, 16 volumes of hearings from the Ways and Means Committee on this measure, and one can find a lot of support for any position he wants to take on that, but if we conduct hearings that would even approach the adequacy of the hearings held on the other side, then there is no prospect, no possibility of voting on this measure in this Congress.

Now, there are at least four Senators who have indicated that they plan to propose either all or part of the House bill as an amendment to the social security bill and that is why we are holding this hearing.

Senator FULBRIGHT. I certainly am glad we are holding these hearings. It would be a new policy to accept the House conclusion and take their hearings. This is a rather new approach on the part of the Senate. We do not do that in many cases, and I am not sure I would like for us to establish a precedent of simply accepting the hearings that are held in the House and acting upon them.

If this legislation as has been stated is basic to our economy, that this body should give, and this legislation deserves, serious attention.

But in any case I just wanted to know what the intention is.

If I understand it, it is to try to vote next Monday or Tuesday to report the bill.

The CHAIRMAN. Well, Senator, it is not the chairman of the committee offering the amendment. It is other members of the committee who indicate that they have every intention of offering it, and the request has been made upon the chairman of the committee which was, of course, directed to the committee itself, that we hold hearings before the measure was voted on.

Now, it is impossible for this committee to hold the kind of hearings that those members who have indicated they wanted for us to hold hearings would desire with regard to this measure. But, at least, we will be able to hear what the administration witnesses want to say. We won't be able to conduct even the hearings we would like to conduct, to interrogate witnesses in depth with regard to this measure. But we can certainly have the administration's views with regard to the House-passed bill which we will be voting on in the near future.

We will have the Secretary of Commerce on Monday, and we can have 2 days of hearings, as the committee agreed in our executive session yesterday.

Clerk's Note.—At this point, objection was raised in the Senate Chamber to the Committee on Finance sitting while the Senate was in session. (See p. 405 for excerpt from proceedings in the Senate, Oct. 9, 1970.) The testimony beginning at this point and proceeding through page 113 was taken during informal proceedings with the following members of the Committee on Finance present: Senators Long, Anderson, Talmadge, Fulbright, Byrd Jr., of Virginia, Williams of Delaware, Bennett, Miller, and Hansen.

Senator BENNETT. Mr. Chairman, I have just been called and informed that Senator Javits has insisted that the committee has no right to sit. He has interposed an objection, and if we continue to sit he will raise the question on the floor of the validity of any testimony taken in the hearings.

The CHAIRMAN. Well, that is just great. I will pay for the reporter myself. We just won't, from this point, go forward with official hearings but hold an informal meeting.

Senator MILLER. Mr. Chairman, I share the Senator from Arkansas' concern about the soybean problem. It seems to me that the Department of Agriculture has primary interest in the matter of agricultural exports and imports. I do not have a list of the prospective witnesses for the next days of bearings, but I would hope that we would have either the Secretary of Agriculture or one of his representatives here to testify on this most important item.

Further, and in the interests of time, I am not going to be asking questions of the witnesses, but I have been advised that we may prepare questions and have them submit answers for the record, but I would be very doubtful that the information that I am asking for from each of the witnesses who has testified so far would be able to be compiled by them for the committee much before next Wednesday or Thursday at the very earliest, and possibly not even by then, and the information is very important to me, at least, in determining my views on the bill, and also on the DISC proposal which, generally, I favor, except I would like to go farther.

I hope that we would not take action on this not only until the hearings have been concluded, but also until the information we have requested has been submitted to the committee so that the members can study the responses.

So while we may complete the hearings by next Monday or Tuesday, I do not think we will have all the information in response to what we have asked by that time. Those are the two points I am concerned with.

The CHAIRMAN. Well, Senator, that is all fine, and I am just trying to do what the committee wants to do, and I will do whatever the committee asks me to do about the matter.

Now, it is beyond my power to do what Senator Javits wants to do. He sent me a letter asking me to hold a hearing, and now he wants to send the sergeant-at-arms over to break it up. So I will just proceed on whatever basis the law permits me to proceed, to respect the other Senators who joined in requesting that we hold a hearing on this matter. The committee in executive session asked that this matter be heard, and that is what we are going to do, to the best of our ability.

Senator MILLER. I applaud the Chairman for holding the hearings. I would just like to make sure that in our witness list we have somebody from the Department of Agriculture, and that we not predestine ourselves to voting on this thing before all the information is in.

(Questions of Senator Miller submitted to the Department of the Treasury and the Special Representative for Trade Negotiations with replies of the witnesses follow. Hearing continues on page 56.)

QUESTIONS ASKED OF DEPARTMENT OF THE TREASURY

Question: The Treasury's recommendation that Congress approve the DISC proposal represents abandonment of the policy of "neutrality" as between domestic-source *income and foreign-source income. Last year, you indicated that your research would follow a cost-benefit approach, with carefully estimated revenue impacts to balance against economic and social trade-offs in our national interest. Please furnish for the record a summary of the trade-offs resulting from this research.*

REVENUE IMPACT OF DISC AND ECONOMIC AND SOCIAL TRADE-OFFS ESTIMATED DIRECT REVENUE IMPACT

Answer: The estimated impact on the FY 1971 budget of a DISC program assumed to begin January 1, 1971 is relatively small (less than $75 million). It will gradually rise to an estimated $600 million per year by the fifth year after its inception. This $600 million represents the revenue loss from the deferral of tax on the level of exports we would have had in the absence of DISC, taking into account the normal growth in such exports. Additional exports which would be attributable to adoption of DISC obviously involve no revenue loss.

The $600 million amount reflects adjustments for two factors: (1) dividend distributions from DISC over a period of time and (2) an estimate of the tax that would *not* have been collected by the U.S. Government on export income, even in the absence of any DISC, due to the use by exporters of excess foreign tax credits to offset the U.S. tax on export income.

It is difficult to predict what percentage of earnings will be distributed by DISC's as dividends to their parent firms; but dividend distributions by *foreign-based* subsidiaries of U.S. firms in recent years have averaged about 35% of earnings and in the case of foreign-based manufacturing subsidiaries about 50%. These foreign-based subsidiaries have a U.S. tax deferral on their undistributed earnings as the DISC's will have. If their experience applied to DISC's, the latter, after a few years, would be distributing from 35% to 50% of their earnings. However, our estimate assumed no distributions for the first two years, a nominal distribution in the third year and distributions in the fourth and fifth years of only 10% to 15% as the DISC proposal will permit more flexibility in the use of undistributed DISC profits than present law permits foreign subsidiaries.

Data with regard to item (2) above are not available from the IRS forms filed by corporations, but there are some indirect indicators of the amount of excess foreign tax credits that are being used currently as an offset to the U.S. tax on export income, and there is some information about this item from individual companies. The amount could well be several hundred million dollars; but since it is difficult to firm up this estimate, we have used an average of $65 million per year in the first five years from establishment of the DISC's.

EFFECTS ON ECONOMY AFFECTING REVENUE IMPACT

The $600 million estimated revenue loss does not include any allowance for increased tax revenues from the stimulative effect of DISC's on U.S. investment, output and employment. By stimulating experts, the DISC should not only lead to fuller utilization of presently unutilized capacity; it should also, over time, affect managerial decisions on the location of new plants in a direction favorable to the U.S.

Evidence that the DISC would have this effect was presented, for example, by one company in a detailed evaluation of the DISC plan with respect to its own operations. That study concluded that DISC legislation would enable the company to increase its exports by $370 million over the next 10 years. Of the 23 major products groups analyzed (representing about 80% of the company's current exports), the export volume of one category of products, amounting to roughly $18.5 million in export sales in 1969, was currently limited, not because of pricing or promotional factors, but primarily because of limits on U.S. production capacity. The company stated that the higher costs of export sales make export activities only marginally attractive as compared with overseas production, thereby forcing business in general to make manufacturing investments overseas, rather than at home. The company projected that, if the DISC proposal were in effect, the net return with respect to these products would improve considerably and would lead the company to give serious consideration to expanding domestic facilities to supply additional foreign demand, rather than expanding its overseas capacity, or abandoning foreign sales to its competitors. Expanded domestic facilities would result in increased U.S. output and jobs.

The U.S. currently faces both an unsatisfactorily high level of unemployment and balance-of-payments deficit. Efforts to stimulate domestic employment, through purely domestic-oriented projects could increase the demand for imports without any effect on exports and have an adverse effect on our balance of trade.

Severe deflation of the economy, on the other hand, might help our balance of trade, but at the expense of an intolerable level of unemployment. DISC will stimulate more exports, helping our balance of trade; and, by so doing, they will allow more leeway in increasing the level of domestic employment without adverse balance-of-payments effects.

It is extremely difficult, of course, to quantify the tax revenue that might be attributed to the stimulative effect of DISC's on the domestic economy.

INCREASE IN EXPORTS AND DOMESTIC EMPLOYMENT

We have estimated that on the average in the four or five years following its inception, DISC would lead to almost $1.5 billion more exports per year than would otherwise take place. A more optimistic estimate reflecting reactions from some business firms would be in the neighborhood of $1.5 billion. Assuming that the relationship between output per worker in export industries and in overall manufacturing remains the same as it was for 1966, such increases in exports would involve on the order of 80,000 jobs.

The trade-off to the revenue cost of DISC involves more than the direct and indirect offsets described above. The U.S. spends billions to preserve its defense posture in the world. The DISC, by comparison, will involve a relatively minor revenue cost to help maintain a strong U.S. economic posture in the world.

Question. Please provide for the record the average hourly wage rates in manufacturing for each of the last five years for the United States and the six other major reporting nations.

I believe this information will show a trend of widening differences from the wage rates of the United States, aggravated by inflation in the United States.

How much of the decline in our favorable balance of trade would you attribute to inflation in the United States?

HOURLY EARNINGS IN MANUFACTURING FOR U.S. AND SELECTED FOREIGN COUNTRIES

Answer: Attached table indicates that while U.S. hourly earnings in manufacturing in recent years have generally risen at a slower rate than foreign earnings (adjusted), the dollars-and-cents increases in U.S. hourly earnings have been larger because the U.S. wage base is so much higher.

The data, of course, need to be considered in the light of differences, and changes in, productivity per worker to form judgments of shifts in the U.S. competitive position.

HOURLY EARNINGS IN MANUFACTURING FOR UNITED STATES AND SELECTED FOREIGN COUNTRIES, 1965-69

[In U.S. dollars]

	1965	1966	1967	1968	1969
United States	2.61	2.72	2.83	3.01	3.19
United Kingdom (males only)[1]	1.20	1.29	1.31	1.22	1.32
(Times 1.14)[2]	(1.37)	(1.47)	(1.49)	(1.39)	(1.50)
Canada	1.96	2.08	2.22	2.39	2.58
(Times 1.18)[2]	(2.31)	(2.45)	(2.62)	(2.82)	(3.04)
Japan	.45	.51	.57	.67	.80
(Times 1.13)[2]	(.51)	(.58)	(.64)	(.76)	(.90)
Germany	1.03	1.11	1.15	1.20	1.30
(Times 1.41)[2]	(1.45)	(1.57)	(1.62)	(1.69)	(1.83)
France	.74	.78	.83	.92	1.04
(Times 1.67)[2]	(1.24)	(1.30)	(1.39)	(1.54)	(1.74)
Italy	.62	.64	.68	.71	.78
(Times 1.82)[2]	(1.13)	(1.16)	(1.24)	(1.29)	(1.42)

[1] Reflects United Kingdom devaluation in mid-1967. Does not reflect French and German exchange-rate changes in 1969, because surveys were taken earlier in the year.

[2] Reflects BLS-computed adjustment, based on 1966 data, for differences between countries in labor costs (e.g., employers' contributions to social insurance programs) not included in published earnings figures.

Note: These hourly earnings figures, in the absence of data on output per man-hour, do not indicate the level of labor cost per unit of output.

Source: Prepared from country sources by Bureau of Labor Statistics, Department of Labor.

RELATION OF DECLINE IN U.S. TRADE BALANCE TO U.S. INFLATION

The explanation for the decline in our trade surplus is to be found in a number of factors, an important one—but not the sole one—being domestic inflation in the U.S. For example, the relative cyclical stages in which the U.S. and some of its trading partners were operating was distinctly unfavorable to the U.S. a few years ago. It has been favorable to the U.S. trade balance in the last several quarters. Other important factors affecting our trade balance include changes in the capacities of various foreign countries to supply industrial goods to world markets; changes in U.S. consumer tastes (foreign autos, for example); changes in commercial policies of other countries; and, of special significance to these hearings, tax policies of other countries (such as tax holidays to attract new U.S. and other investment) and tax policies of the U.S. (which have served as a relative impediment to exports). Thus, while a substantial part of the 1965-69 decline in our trade surplus may be attributable to domestic inflation, that is not the whole story. Although some efforts have been made to isolate statistically the precise effects of domestic inflation on the trade balance, there effects are not easily separated from those due to other influences.

Questions Asked of the Special Representative for Trade Negotiations

Question: I am advised that in 1962, our State Department allowed a "clarification," so-called, of the GATT regulations to permit the rebate of turnover (or added value) taxes and to prohibit similar treatment for income taxes.

Is this true? If so, how did it happen? How "binding" is such a unilateral concession on the United States? What efforts have been made to rectify the matter, and with what results?

If we are "bound" not to "rebate" income tax, would we necessarily be "bound" not to lower tax rates on foreign source income? For example, specify wherein we would be prohibitive from extending our Western Hemisphere Trade Corporation tax law to include other countries—European countries and Japan, for example?

Answer. The GATT rule permitting rebate of indirect taxes is traceable to the ITO Charter as originally proposed by the United States in 1946. At that time the United States relied heavily upon indirect taxes and this treatment was considered to be in our interests. These proposals influenced the drafting of the rules of the GATT in 1947. The GATT provision on subsidies, contained in Article XVI, was based directly upon the U.S. proposals.

The members of the GATT made this subsidy provision more specific in 1957 by agreeing to an interpretive note which provided "the exemption of an exported product from duties or taxes borne by the like product when destined for domestic consumption, or the remission of such duties or taxes in amounts not in excess of those which have accrued, shall not be deemed to be a subsidy."

This interpretive note merely strengthened what had been explicit in the GATT since its inception in 1947 in its separate rules concerning countervailing duties. Here the GATT provides that any exemption or remission of indirect taxes should not be a basis for imposing antidumping or countervailing duties.

A related GATT rule adopted in 1957 prohibits export subsidies on products other than primary products. The countries agreeing to this expanded rule further agreed in 1960 on a list of practices generally to be considered as subsidies. Among those listed were:

> "(c) the remission, calculated in relation to exports, of direct taxes or social welfare charges on industrial or commercial enterprises;
>
> "(d) the exemption, in respect of exported goods, of charges or taxes, other than charges in connection with importation or indirect taxes levied at one or several stages on the same goods if sold for internal consumption; or the payment, in respest of exported goods, of amounts exceeding those effectively levied at one or several stages on these goods in the form of indirect taxes or of charges in connection with importation or in both forms."

This rule became effective in 1962 among the industrialized countries. It was reached on a multilateral basis, not by unilateral concessions by the United States. Since some of those countries were rebating on exports their employers' social security taxes and corporate income taxes, it was considered at the time to be a major achievement.

Our concern about the possible trade effects of direct and indirect taxes and of GATT rules regarding such taxes resulted in the establishment of a special GATT Working Party on Border Tax Adjustments in 1968. This group has analyzed the problem and the GATT rules, the practices of countries making adjustments for taxes on products and the possible trade effects of such adjustments. While the complex nature of the issue and differing views have been well aired, a ready resolution of these differences has not been possible. At the same time, the Treasury Department is examining alternative revenue sources, including the possibility of a consumption tax such as the value-added tax, in connection with a study of our revenue needs for the years ahead.

With regard to lower tax rates on foreign source income, several countries have questioned the consistency with the GATT rules on direct taxes of our Western Hemisphere Trade Corporation (WHTC) tax law provisions. The United States has pointed out that the WHTC provisions are primarily an investment incentive; only about 10 percent of the WHTC taxable base relates to trading companies. Moreover, a "grandfather clause" contained in the GATT would include WHTC, if it were in contravention of the GATT. Consequently the application of the WHTC provisions to other geographic areas, such as Europe and Japan, would serve primarily to encourage direct investment in other countries. Such a development might have adverse effects on our balance of payments.

Question: It is recognized that the American Selling Price system of customs valuation is somewhat controversial. However, its elimination—without something to take its place in customs valuation could work great hardship. I am not concerned in this question over tariffs or reduction of tariffs. I am concerned with the system of valuing imports against which value a tariff is imposed. What do you propose to substitute for ASP in meeting the problem of unfair competition through non-reciprocal valuation systems?

Answer: Although the implication of this question that customs valuation systems are important is proper, it does not follow that other major chemical producing nations will have different or less reasonable valuation systems applicable to their imports than that which would apply in the United States after elimination of ASP.

In the current GATT work program on non-tariff barriers considerable attention has been given to the problem of how countries value imported merchandise for customs purposes. This investigation has not developed any appreciable evidence that other major trading nations are employing what might be termed "non-reciprocal valuation systems" nor is there any evidence that changes will be made if ASP is eliminated.

This investigation, on the other hand, has also revealed that United States practices differ from those of most of its important trading partners. Unlike the United States, most major developed countries today adhere to a common, worldwide system—the Brussels Convention on the Valuation of Goods for Customs Purposes. There is little evidence that this system operates to treat U.S. exports unfairly. While opinions can differ on whether the Brussels system is a better system than ours, it is clear that tariff negotiations and other trade matters would be more easily manageable if all major countries utilized the same basic system.

As far as valuation of merchandise entering this country is concerned, the values to which tariff rates will be applied will continue to be determined by the United States Bureau of Customs in accordance with relevant statutes, court rulings, and the Bureau's own regulations.

Thus, while the question would rule out the issue of tariff levels, this, nevertheless, appears to be the principal area in which there might be any basis for future concern. Tariffs cannot be divorced from the levels of protection, the key issue in the effect of eliminating ASP.

In this regard, it should be noted that after implementation of the ASP agreement, with relatively few exceptions, there will be no European Community or U.K. chemical rate above 12.5 percent and most Community rates will be well below this level. On the other hand, in the areas often considered to be relatively more sensitive, U.S. tariffs will usually range upward from 19 or 20 percent, the most notable being a 30 percent rate applicable to dye and pigment imports while a 10 percent dyestuff rate will apply in the EC and 15 percent in the U.K.

The CHAIRMAN. Senator Hansen.

Senator HANSEN. Mr. Chairman, I would like to ask a couple of questions. No. 1, does the distinguished senior Senator from New York object to the holding of any hearing by committees today, or is his objection concerned explicitly and exclusively with this particular committee sitting in session and holding hearings? Does the Chairman know the answer to that question?

The CHAIRMAN. I honestly do not know, Senator.

Senator HANSEN. I am sure it is not appropriate to ask if you would infer from the Senator's objection that he chooses not to afford a public forum so as to result in as broad an understanding of this piece of legislation as I hope might be the case, although, I must admit that I am inclined on the basis of his early request that we did hold hearings and his objections being voiced to them now, to infer that he does not choose to have as broad a public understanding of this complicated question as I would hope might be his attitude.

I have great respect for him, and I must say that I hope that I can understand better what prompted him to voice the objection that he did.

It would seem to me that he, having proposed, as I know he does, a considerably increased appropriation for our manpower training program to try to find jobs for these people who are being put out of work, that he would share some concern in looking at the other side of the coin to see what we might do to protect those jobs that we already have in this country.

I am aware that one of the distinguished representatives from Massachusetts, Mr. Burke, pointed out that in his State 55 shoe factories have been closed in 1969, and that 77,000 workers have lost their jobs in the textile industry.

I think it is one thing, and I share the concern of the distinguished senior Senator from New York, to try to find new jobs for people who are out work, to try to retrain them, and I do not object at all to contributing my share of the tax burden that such a program would impose on all taxpayers, but I think it is equally important to try to protect the jobs that we have in this country, and I suspect that one of the witnesses today, Mr. Biemiller, will address himself to that position.

If you could, Mr. Chairman, for my own information, I would be very much interested in knowing if the Senator from New York has opposed the sitting in committee session of all committees of the Senate or only of this one.

Thank you, Mr. Chairman.

The CHAIRMAN. Well, I do not know. But, as I say, as far as I am concerned, from this point forward we are sitting informally as a group of Senators, and anybody who wants to leave can leave, and we will proceed to hear whatever we wish to hear.

Senator HANSEN. Mr. Chairman, may I say I happened to have taken this job to try to support a cattle ranch that I have, which is badly mortgaged, but I will help share the expenses of the reporter, if that is necessary.

Senator FULBRIGHT. Mr. Chairman, I did not get to ask any questions. [Laughter.]

I was interrogating the chairman. There are a few substantive questions I would like to put to the witnesses, and if they do not have time to answer today, they might supply something for the record.

Senator ANDERSON. I want to say just this word: I think we have to have these hearings. I opposed them for a while, but here comes a bill that will be offered as an amendment to the Social Security Act, and I have some questions about it I want to explore. I will sit here with the chairman as long as we can do it. I think it is a mistake to stop our proceedings for a while.

The CHAIRMAN. Senator Fulbright.

BALANCE OF TRADE

Senator FULBRIGHT. Mr. Volcker, the area which I wanted some information about is the effect of inflation, of our price level, upon our balance of trade, and the history of our balance of trade during the last several years.

It is my view that passing a bill like this is very dubious, that is, a quota bill, because our experience in the past has not been a very happy one. We formerly were competitive until we began to spend so much of our money on military affairs, especially on warfare. We were competitive 10 years ago, that is, we held our own and had a favorable balance of trade. Once we spent so much money on non-productive, wasting assets, and became noncompetitive as we now are because of our inflation. Our inflation has been higher than nearly any highly industrialized nation, I think, in the last 3 or 4 years, is that not correct, Mr. Secretary?

STATEMENT OF HON. PAUL A. VOLCKER—Resumed

Mr. VOLCKER. I think our long-term record of inflation relative to other countries has been good. In recent years it has not been good.

Senator FULBRIGHT. That is what I mean. Ten years ago we were competitive in trade, were we not?

Mr. VOLCKER. This is not a black and white situation, as you know, Senator. We had a more favorable trade balance certainly 10 years ago.

Senator FULBRIGHT. What was our trade balance 10 years ago?

Mr. VOLCKER. It averaged, perhaps, $4 to $5 billion in the first half of the 1960's, as a whole. It reached a peak of $6½ to $7 billion in 1964, and has declined since then.

Senator FULBRIGHT. To about $1 billion?

Mr. VOLCKER. $1 billion or a little less last year.

Senator FULBRIGHT. A large part of that has been historically agriculture, has it not? I mean, one of the most favorable, one of the most important, contributors to this favorable balance is agriculture; is it not?

Mr. VOLCKER. Yes. We traditionally have been a big agricultural exporter.

Senator FULBRIGHT. And the reason I am interested is that mine is primarily an agricultural State. We export large amounts of cotton, rice, and soybeans. The soybean people have legitimate interests and important interests not only in my State, but in the States of the Senators from Iowa, Illinois, Missouri, and others as well. It is a big crop, an important crop, and I am interested in seeing that we do not do something under the impact of such a rush schedule which would be unwise.

It strikes me that rather than a bill to arbitrarily put quotas up, which starts a chain reaction, as the Smoot-Hawley Act did, of simply lessening all international trade, a much wiser approach might be to stop the war and to stop the expenditures for noneconomic activities such as ABM's and SST's, and bring our economy back in balance, and then we might gradually become competitive again.

Has the Treasury ever considered this approach? [Laughter.]

Mr. VOLCKER. I think in general terms you describe our approach, Senator.

Senator FULBRIGHT. What?

Mr. VOLCKER. I think we are making every effort to bring the economy back into balance, and we are showing considerable success, and the trade balance is, in fact, responding to that.

Senator FULBRIGHT. Why do you wish to inject an arbitrary quota system which would reverse this? I am not saying it would. What I was asking, the reason I asked the Chairman this, I am not sure I am against this bill. We do have some textile factories in my State, and I certainly do not want to injure them. But, on balance, I would like to protect both interests in my State. Agriculture is however, very much greater in terms of people employed and economic impact.

However, I am very interested in the workers because we have several thousand in the mills, too.

What I would prefer would be to vote on social security and let it stand on its own, and then take the trade bill and consider it. I am not sure I will vote against it. At this stage I am not sure I understand it well enough to do so.

But our experience in the past has not been very happy with these quotas and our shutoffs of trade. I agree these are not complete shutoffs, and that is the reason why I am not sure I will vote against it.

Some temporary restrictions could be justified, and I am perfectly willing to consider that. But the other approach, I submit, is far better.

Mr. VOLCKER. The other approach is essential, Senator, and we want to follow that. The Ambassador and I have expressed very deep reservations about certain portions of this bill and, particularly, some of the atmosphere of quotas that surrounds it.

Senator FULBRIGHT. We have suffered from quotas abroad. I complained bitterly about quotas put up by Germany and other countries against our poultry. We had a very good business, it was an economic and sound business, nonsubsidized, but they just put quotas on, and it irritated me, and I wanted to retaliate. But I think it is the wrong thing to do in the long run because as each begins to retaliate, nobody has a good business, and I am very fearful if we act too precipitously we will take action which we will regret because we cannot always control the response by the other side.

I mean many people do not always act in accordance with their interests. They often become emotional, and this can start a chain of events that we cannot control in the other countries.

Mr. VOLCKER. That is right.

Senator FULBRIGHT. That is what bothers me.

Mr. VOLCKER. I, perhaps, read my statement before you came in, Senator.

Senator FULBRIGHT. I am sorry I missed it.

Mr. VOLCKER. I have several sentences precisely to that effect.

Senator FULBRIGHT. I did not know you had.

This is what bothers me about the procedure. I am not sure at all, I may very well vote for this, particularly if it is temporary in nature, does not lock us into a course of action, we retain flexibility, and if we can bring the war expenditures and the military expenditures down within reason. Some efforts are being made. The House has reported—I have been informed—slightly less for that purpose, and if we can make progress that way, I hope we can again become competitive. That is the only way, it seems to me, in the long run, which is satisfactory to a country as big as this one.

Mr. VOLCKER. I quite agree with you, and I would submit that the President's budget, submitted as long ago as February, did look for a sizable reduction.

Senator FULBRIGHT. That is correct, and we ought to give it a chance to go into effect. I grant it this is not all the administration's fault. The Congress is often intent upon increasing those expenditures. I think the House put $435 million in unbudgeted items, into the current appropriations bill, did they not, for the military?

So it is not all your fault.

Mr. VOLCKER. I won't accept the fault, I don't think, Senator because, I think, the administration's program, the President's program, has been to reduce defense expenditures to the maximum they felt able to, and that is considerable.

Senator FULBRIGHT. I think they are making efforts in that respect.

On these items, I think for the record I would like to have the statistics for the last 10 years if you could make them available in an easily understood form, about the history or what has happened in our exports and the division of the major items, such as I have mentioned, agriculture, industry, to show and to convince people that, and particularly to convince the Senate, about the wisdom of following the program you say you approve. I think it is important to show the objective still is to become competitive.

Mr. VOLCKER. There is no question about that.

Senator FULBRIGHT. You have items on such things as feed grains, soybeans?

Mr. VOLCKER. I do not have those details before me.

Senator FULBRIGHT. Can you get them?

Mr. VOLCKER. I can provide those.

Senator FULBRIGHT. By Monday, say, you or maybe Agriculture?

Mr. VOLCKER. I think we can produce them.

Senator FULBRIGHT. You know what I have in mind, to give a little background of how we had progressed from a favorable balance and what has happened to these major items. Is that too much to ask you?

Mr. VOLCKER. No, sir. We can provide that by Monday, I am sure.

Senator FULBRIGHT. And it would be very useful especially on the floor and in support of amendments which, I would hope, would soften the harsher aspects of this proposed bill.

Mr. VOLCKER. Glad to do that.

(Information supplied by the Department follows:)

TABLE I.—U.S. EXPORTS BY ECONOMIC CLASS: 1960; 1964–69

[In millions of dollars]

Economic class	1960	1964	1965	1966	1967	1968	1969	Percent change from 1960 to 1969
Crude foods	$1,645	$2,540	$2,587	$3,198	$2,595	$2,334	$2 086	+27
Manufactured foods	1,117	1,687	1,590	1,582	1,596	1,671	1,782	+60
Crude materials	2,585	2,897	2,888	3,143	3,293	3,467	3,476	+34
Semimanufactures	3,587	4,226	4,114	4,368	4,489	5,117	5,774	+61
Finished manufactures	11,473	14,947	16,008	17.703	19,265	21,609	24,327	+112
Total, domestic exports	20,408	26,297	27,187	29,994	31,238	34,199	37,444	+83
(As percent of GNP)	(4.1)	(4.2)	(4.0)	(4.0)	(3.9)	(4.0)	(4.0)	
Trade balance (billion dollars)	4.91	6.83	4.95	3.93	3.86	.62	.64	−87
(As percent of GNP)	(.010)	(.011)	(.007)	(.005)	(.005)	(.0007)	(.0007)	

U.S. EXPORTS OF SELECTED AGRICULTURAL PRODUCTS: 1960; 1964-69

[In millions of dollars]

Commodity	1960	1964	1965	1966	1967	1968	1969
Rice	$129.5	$205.6	$244.5	$229.6	$318.8	$347.7	$348.8
Soybeans	335.9	566.9	650.1	759.9	771.6	810.0	822.3
Feed grains [1]	523.6	1,010.9	1,138.8	1,342.1	1,062.6	933.0	868.3

[1] Barley, corn, grain sorghums, rye, oats.

Source: Foreign Trade and Navigations of the U.S., 1964; FT 410 and FT 990 (various issues). All publications of Bureau of Census, Department of Commerce.

Senator BENNETT. Mr. Chairman, I have been out digging a little more into the situation. [Laughter.]

The objection was made to the sitting of this committee only, and the Parliamentarian tells me that we can't continue to sit, we are theoretically in violation or in rebellion, maybe that is the word [laughter], against the Senate, but it will take an affirmative vote of the Senate to prevent you from paying the reporter and, apparently this may be what Senator Javits will attempt on Monday. But in the meantime, we have relieved your pocketbook and, if you don't mind being in defiance of the rules of the Senate, we can go ahead.

Senator FULBRIGHT. What about the principle of law and order. I am a law and order man. [Laughter.] I do not believe proceeding in violation of the rules of the Senate, I do not like to be put in this position. I want to hear the witnesses.

The CHAIRMAN. Well, that Supreme Court over there seems to interpret the Constitution to suit itself, and I'm going to interpret those rules to suit myself, and I do not think I am in violation the way I am proceeding.

Mr. VOLCKER. Mr. Chairman, I trust I do not have to pay for the collection of the statistics asked for. [Laughter.]

Senator BENNETT. The only time we are really in violation is if we would attempt to take action against the objection. As long as we are simply holding a hearing, as I say, it will take an affirmative action by the Senate to refuse to pay for the cost of the hearings.

The CHAIRMAN. If I have to proceed as an individual Senator or as an informal group or however, I am going to proceed until somebody—

Senator BENNETT. Arrest me.

The CHAIRMAN. Puts me under arrest and hauls me away to jail, because I think I am within my rights, whether I am or not.

Senator FULBRIGHT. You are responsible for all of us. You are going to protect us too. [Laughter.]

The CHAIRMAN. Put it this way, if you have to go to jail, Senator, I will go with you.

Senator FULBRIGHT. OK

The CHAIRMAN. Is that all, gentlemen? Well, thank you very much, gentlemen.

The next witness will be Mr. Andrew J. Biemiller, director of the Department of Legislation of the AFL-CIO.

STATEMENT OF NATHANIEL GOLDFINGER, DIRECTOR, DEPARTMENT OF RESEARCH, AFL–CIO; ACCOMPANIED BY RAY DENISON, LEGISLATIVE DEPARTMENT, AFL–CIO

Mr. GOLDFINGER. Mr. Chairman, my name is Nathaniel Goldfinger. I am the Director——

Senator FULBRIGHT. May we have order, Mr. Chairman, I cannot hear the witness.

The CHAIRMAN. Let us have order.

Mr. GOLDFINGER. My name is Nathaniel Goldfinger. I am the director of the Department of Research of the AFL–CIO, and I am accompanied by Mr. Ray Denison of the Legislative Department of the AFL–CIO.

Mr. Biemiller, director of the AFL–CIO Legislative Department, left a few minutes ago for a prior engagement which he could not, unfortunately, postpone. I will proceed with the statement which has been submitted in the name of Andrew J. Biemiller, director of the Department of Legislation of the AFL–CIO.

The bill before you from the Ways and Means Committee represents a patchwork of both forward and backward steps in light of the very serious and growing problems that confront America in the related areas of international trade and investment.

The proposal for DISC, in particular, is a travesty, in terms of both tax and trade legislation.

In the very brief time allotted to me—and the brief time available to the committee—I can only indicate a few highlights of the issues.

An immediate and thorough revision of U.S. Government posture and policies is required in the related areas of international trade and investment—to meet the needs of the American people in international economic relationships, which have been changing substantially since the end of the 1940's and at an accelerated pace in the past decade.

U.S. Government doctrines and policies, which were developed to meet world economic conditions of the 1930's and 1940's are utterly unrealistic today. We live in a world of managed national economies, internationalization of technology spurred by the skyrocketing foreign investments and technology—transfers of U.S. companies and the mushrooming growth of multinational corporations largely U.S. based.

The U.S. position in world trade has been increasingly dominated and compromised by these developments. In an attempt to manage their national economies, other countries have direct and indirect subsidies for exports and barriers to imports—retarding the expansion of U.S. exports and spurring the growth of U.S. imports. A substantial portion of U.S. exports and imports are affected by these practices: U.S. production is displaced and American jobs are lost.

In addition, at least 25 percent of U.S. exports are now intracorporate transactions between U.S.-based multinationals and their subsidiaries and probably about a quarter or more of U.S. imports are similar intracorporate transactions. Moreover, an additional, significant portion of what is reported as U.S. trade—estimated as much as another 25 percent—is between U.S.-based multinationals and firms in foreign countries, with whom they have license, patent or other joint-venture affiliations. These operations have resulted in the export of U.S. technology and the export of scores of thousands of American jobs.

As a result, the maintenance of outdated Government doctrines and policies, that were designed to meet the needs of substantially different economic conditions, now contribute to undermining the U.S. economy at home and abroad. If continued in the 1970's, they will result in further deterioration, additional displacement of U.S. production, and greater losses of American job opportunities. A considerable volume of U.S. production already has been displaced and about 700,000 American job opportunities have been exported in the past few years.

At this point, Mr. Chairman, there is a typo. The next three paragraphs should follow the footnote paragraph on the last page of the statement, and that is all part of the footnote, substantiating the estimate of the loss of 700,000 American jobs in the period from 1966 to 1969, based upon estimates of the U.S. Department of Labor.

I will proceed following the footnote.

These adverse impacts are especially harmful to workers, who have substantial stakes in their skills, jobs, seniority, homes, and communities. Capital is mobile, technological know-how can be bought and sold, and investments can be moved easily. Workers and their families cannot be moved around and sacrificed like pawns on a chessboard.

A battery of realistic policies and measures, including control and regulation of private investment outflows and U.S.-based multinational company operations is needed.

The choice is not between the theory of free trade and the theory of protectionism. Free, competitive trade relations hardly exist any longer in this world of managed national economies, global technology-transfers, and the large-scale operations of foreign subsidiaries of U.S. companies. It is neither possible for the American economy to hide behind high tariff walls nor to pretend that free, competitive trade relations are possible.

There is a need to move ahead rapidly for an orderly expansion of world trade, with U.S. considerations as the starting point for U.S. policy and posture, based on the premise that trade is a complex network of interrelationships and establish trade and investment policies to deal with the foreign investments and operations of U.S. companies and banks.

U.S. Government measures are required:

1. To stop helping and subsidizing U.S. companies in setting up and operating foreign subsidiaries—for example, to repeal section 807 and similar provisions of the Tariff Code, and to repeal the tax provision which permits the deferral of U.S. taxes on the income of U.S. companies from their foreign subsidiaries.

2. To supervise and curb the substantial outflows of American capital for the investments of U.S. companies in foreign operations.

3. To press, in appropriate international agencies, for the establishment of international fair labor standards in world trade.

Senator FULBRIGHT. Would you read number two again. I missed it.

Mr. GOLDFINGER. Two. To supervise and curb the substantial outflows of American capital for the investments of U.S. companies in foreign operations. It refers to capital controls of some sort. Paragraph 4. As a stopgap in the face of growing unresolved problems to regulate the flow of imports into the United States of a variety of goods and product lines, in which sharply rising imports are displacing significant percentages of U.S. productions and employment in such markets.

The bill from the Ways and Means Committee fails to deal with the first three areas of need, indicated above.

However, it does deal haltingly and, in part, with needed stopgap measures. There is an approach toward curbing the flood of imports of textiles and apparel, as well as a partial approach toward curtailing the rising imports of shoes.

The escape clause mechanism is much improved over existing legislation and procedures.

While the complex and cumbersome procedures to stem the rising floodtide of imports of other products—such as electrical equipment and consumer electronic goods—are a bow in the direction of required action, there is good reason to doubt the effectiveness of the proposed procedures.

The most directly negative and harmful feature of the bill—a proposal that would represent a setback in the effort to establish tax justice in America—is the so-called DISC proposal.

The AFL-CIO urges the committee to reject this tax giveaway to large corporations, a proposal recommended by the administration. Under the DISC proposal, U.S. corporations are encouraged to set up domestic subsidiaries for export sales. Taxes on the profits of such subsidiaries would be deferred until such time as the profits are transferred back to the parent corporation.

By permitting corporations to spin off into a new form of corporate subsidiary organization—a so-called Domestic International Sales Corporation—the administration is cavalierly willing to risk—through the creation of a new tax loophole—the loss of up to $1 billion annually in Federal revenue in the hope of gaining an uncertain, but at best, marginal increase in exports.

The AFL-CIO objects to the DISC proposal for the following reasons:

1. DISC would create immediately a new tax loophole which in the main would benefit large corporations.

Under present law, profits from export sales are subject to U.S. income taxes in the year earned. U.S. income taxes on profits of U.S.-owned foreign subsidiaries are deferred—they do not have to be paid until such time as dividends are brought back to the United States.

Through the DISC proposal the Treasury seeks to achieve "equity" through extending and widening the existing tax-deferral loophole to profits from export sales of domestic corporations. The Treasury would, therefore, widen an existing loophole, entrench it further into the law and postpone or preclude any opportunity to eliminate this preference.

Although offered as a means to help small companies, about half—according to the Treasury—of the total manufacturing exports can be attributed to 93 companies. Furthermore, these companies tend to be the large integrated operations which perform any stages of the manufacturing process. The Treasury proposal would permit export profits to be earmarked for DISC benefits and the benefits would be greater for companies with an integrated process of production than for small, unintegrated firms.

2. The DISC provides no added incentive to increase U.S. exports. The benefits of tax deferral would flow to all firms exporting goods—regardless of whether their export sales increase, decline or remain stable.

3. The DISC proposal would be a windfall tax bonanza to corporations already engaged in export trade. Their exports need not change—only their bookkeeping system would.

4. The DISC proposal would open opportunities for tax avoidance through bookkeeping gimmickry between the DISC and its parent corporation. The Treasury's proposal would permit tax-free reorganizations into DISC's and provide additional opportunity for corporations to accumulate tax-free funds. Moreover, the provision would permit DISC to lend these tax-free accumulations to the parent corporation which, in part, could go to subsidiaries operating in foreign countries.

Finally, it should be pointed out that the administration's DISC proposal is being offered at the same time that another administration tax proposal is being considered by the Congress—the recommendations of the President for continued consumer excises on automobiles and communication services and higher consumer levies on gasoline. The combination of these proposals suggests to us a double standard in tax philosophy—a philosophy which says that, where the low- and middle-income American is concerned, the stick of tax increases is to be used in the hope of forwarding national goals; however, when large corporations and their wealthy stockholders are involved, the carrot of tax cuts is the appropriate philosophy and the risk of further budget imbalance is worth the taking. We reject this philosophy.

The already overburdened U.S. taxpayer should not be called upon to underwrite the administration's willingness to use every occasion possible to reduce the share of wealthy corporations and their stockholders in the Nation's tax burden. And we insist that the American worker not be the instrument of sacrifice in the battle of the huge corporations for overseas profits.

FOOTNOTE

In his statement to the congressional Joint Economic Committee, the then-Secretary of Labor, George Schultz, presented a rough estimate of the employment impact of imports. He reported that "about 1.8 million jobs in 1966 would have been required to produce the equivalent value of the 74 percent of imports that were competitive with U.S. made products." Recently in a statement to the House Ways and Means Committee, Dr. Schultz updated these estimates:

> In 1969, if we had attempted to produce domestically goods equivalent in value to such imports, the Bureau of Labor statistics has estimated that we would have needed 2.5 million additional workers . . .

These rough estimates indicate the loss of about 700,000 job opportunities in the 3 years, 1966 through 1969—excluding additional job impacts of the retarded expansion of exports due to such factors as the activities of U.S.-based multinational companies in foreign markets and barriers to exports from the United States by foreign governments.

During the same 3-year period, the Bureau of Labor Statistics estimates that the number of jobs attributable to merchandise exports—including jobs in agriculture, the services, and transportation—increased only 300,000.

These rough estimates indicate the net loss of approximately 400,000 job opportunities in 1966–69. Even though these Government estimates are not precise—and may well be understated, in terms of the impact of trends in international trade and investment on employment—the fact of substantial net job losses is clear.

Thank you.

The CHAIRMAN. Thank you very much.

Any questions, gentlemen?

Senator FULBRIGHT. Yes, I would like to ask a question.

FOREIGN INVESTMENTS

This item two interests me because I was under the impression that the Government is actively promoting the export of U.S. Capital through guarantees of investments, et cetera, all around the world under certain provisions of the Foreign Assistance Act.

Mr. GOLDFINGER. Well, we think—that is true, sir. In fact, in our estimate there are, also Government subsidies for these kinds of operations.

Senator FULBRIGHT. That is correct.

Mr. GOLDFINGER. For example, section 807 of the Tariff Code. We think that section 807 should be repealed. We think that there should be a capital controls and a capital supervision system so that we can get some kind of rational curbing and rational supervision of the outflow of American capital for these purposes.

Senator FULBRIGHT. Well, the least we can do, it seems to me, is not to give active encouragement to do it, which we are actually doing now. We have been for a long time.

Mr. GOLDFINGER. I could not agree with you more, sir.

Senator FULBRIGHT. What happened, I think, is that this idea originated during the period of what we called the dollar gap, when we had $24 billion in gold, and all the other countries were broke, back in the early fifties and as usual, it takes a little time to adjust our ideas to changing events.

We have these guarantees all over the world now and they are active inducements to investment by these same corporations.

Would you advocate that we stop that program?

Mr. GOLDFINGER. I'm not sure I would advocate stopping the program. I would advocate supervision of those kinds of outflows and certainly careful supervision as to the purposes and places, locations and so forth, of these kinds of capital investment outflows.

. . .

MULTINATIONAL CORPORATIONS

Senator FULBRIGHT. I think what you have to say about the multinational corporations is extremely interesting, and I confess I do not know too much about it. But this is, this is a highly complicated area, and in which I would think very extensive study should be made about this.

I heard a very interesting development that is related to this about the Japanese activities recently in purchasing materials all over the country. Specifically, they made a contract with a large domestic coal company giving them—they put up the money, the cash, of course. They have been paying cash now due to the various activities to which we contribute, I won't go into that now. They put up the cash to open a large metallurgical coal mine in this country, and got the option for the entire ouput in a period when we had a shortage of coal. This is an example of their foresight and their good business judgement, and I am told that they are doing similar activities in Canada and Australia or wherever they can purchase the raw materials over a long-term program. This is extraordinarly intelligent and wise from their economic point of view, but is not something which bodes very well for us in the future if this goes on, and we are in the difficulties, we are in now. Do you have any comment about that? Do you know anything about it?

Mr. GOLDFINGER. No; I do not know about the specific incidents that you refer to in the case of the Japanese purchasing coal facilities here. But I am impressed, and I have been increasingly impressed, by what seems to me to be the irrational policies of the U.S. Government in terms of international trade and investments. We are not protecting our national interests and we are permitting all kinds of undermining of our national interests in these areas.

Senator FULBRIGHT. I agree with that. I think we have already gone very far indeed, and these are just some instances of it.

QUOTAS AS A STOPGAP MEASURE

But I come back to my first statement which is that this is much more complex, it seems to me, and much deeper seated as a problem this can be dealt with by simply putting up a quota to prohibit certain textile or shoe imports and letting it go at that. It seems to me it is a very superficial aspirin for a deep cause which we have not dealt with as we should.

Mr. GOLDFINGER. Well, sir, it may be superficial, and we have posed this as a stopgap. But in the face of the fact, as we see it, that all of the major foreign investment and trade problems are not being taken care of, we strongly advocate these stopgap measures. We hope that despite the adoption, hopefully the adoption of these stopgap measures, that the Congress will see fit in the ensuing year or two ahead to move into the basic underlying issues that have been undermining and deteriorating the U.S. position in world trade.

Senator FULBRIGHT. What would you recommend about time and flexibility of these measures, the so-called stopgap; what is your recommendation on that?

Mr. GOLDFINGER Well, offhand, sir, I do not have a time period in mind because I see no effort currently on the part of the administration or the Congress to move ahead on the basic issues. Until such a time as we do get the supervision, for example, and curbing of the outflows of capital, and some kind of U.S. Government handle on these multinational operations. I think that the stopgap measures are needed.

Senator FULBRIGHT. Well, you say you saw no movement on the part of the Congress or the administration. As a matter of fact, there is a very strong minority segment in the Senate that is very interested in doing this, in moving toward the curtailing of these continued transfers of capital and of curtailing the expenditures in Asia and in such places.

Mr. GOLDFINGER. But, you see, sir, we represent a large number of trade unions with a membership of over 13.5 million people, and these people cannot wait for long-term solutions, because as you know, Lord Keynes told us a long time ago, in the long run we are all dead. We need answers now.

What we see before us is the outflow not only of U.S. technology and U.S. capital, but we see the outflow of scores of thousands of jobs each year.

Now, I can read to you the October 6 release of the U.S. Tariff Commission, in which they rejected our proposal for the repeal of section 807 of the Tariff Law.

Their recommendation flies in the face of their own findings of fact where they said:

"With respect to some of the imports, especially those from developing countries, the Tariff preference"—that is 807—"on the U.S. components has served to encourage the development of foreign assembly operations . . . The Commission estimated that foreign assembly and processing operations utilizing these provisions now provide employment for about 121,000 workers in foreign countries."

That is just one small provision, and here you have the example of the outflow of about 100,000 American jobs, subsidized in effect, by U.S. Government provisions.

Senator FULBRIGHT. I only mention that I hope we would get the support of your organization in these efforts to curtail some of these expenditures and to change our foreign policy, and especially to change our policy in Southeast Asia which, it has been my impression, your organization has supported very vigorously for the past 5 years.

Mr. GOLDFINGER. I do not believe, sir, that the Vietnam war and the acceleration of the price level have been more than aggravations of this economic problem of the U.S. position in world trade and investment.

The underlying causes are there, and they are the major causes, and they were there before Vietnam. It is the existence of managed national economies, it is the increasing internationalization of technology, the transfer of U.S. technology and the mushrooming development of multinational corporations. These, in our opinion, are the basic reasons for the deterioration of the U.S. trade position.

Senator FULBRIGHT. I think they are all a reason, but I would not minimize the extent of the expenditure of $80 or $90 billion a year on military affairs, which we have been doing on our domestic economy and our price level.

Well, that is all, Mr. Chairman.

The CHAIRMAN. Senator Miller.

Senator MILLER. Mr. Goldfinger, I applaud some of your recommendations for basic changes. But I think we all recognize these can take a long time coming.

Mr. GOLDFINGER. Yes, sir.

Senator MILLER. Therefore, it is understandable why you would recommend certain stopgap measures.

I suggest to you that this proposal is a stopgap measure. In 1962, I am told, our State Department agreed to a "clarification" in the GATT rules under which a rebate of value added taxes would be permitted, but no rebate of income taxes would be permitted, and so we run into this argument: an American corporation points out that a corporation in another country can, in effect, export to us and have a rebate on their value added taxes, but this American corporation cannot get any rebate on its income tax.

So, if there is no tax benefit that the American exporter can obtain, he goes out of business, and that means jobs.

That being the case, I wonder why you would oppose a stopgap measure to prevent a foreign corporation from taking over our market?

Mr. GOLDFINGER. Well, our view of this situation is somewhat different from yours, Senator.

At present, we think that there is a tax loophole in the form of the tax deferral on the profits of U.S. subsidiaries abroad.

Now, the Treasury has come forth in their very peculiar and, I would say, twisted version of equity, and they say that in order to equalize the situation, because there is a tax loophole for foreign subsidiaries, let us widen and extend the loophole to U.S. exporters.

I do not think that that makes sense. I think furthermore, that it is bad social policy. There will be the loss of upwards maybe, something like $1 billion a year after it is in full operation, and this loss of U.S. revenue will have to be made up by other taxpayers.

This large sum would be going for the benefit essentially, as we state, of the large exporting corporations. We do not think that it promotes exports. It will give a tax benefit to the corporations that are currently in the export business.

Senator MILLER. May I point out to you that tax deferral is not nearly as good as tax rebate because sooner or later the taxes are going to have to be paid. It is my understanding that the DISC proposal is a tax deferral not a tax rebate situation. So even with the tax deferral, our manufacturers in this country are not going to be on a par with some of their competitors overseas.

Now, I am told that this may help a little bit.

What I want to do, as a Member of Congress, is to take action which will help us compete. I would rather do some of the fundamental things which you have recommended. I think an international fair labor standards approach is long overdue, but that is out in the future.

What do we do now? I am looking for a stopgap measure which will prevent loss of jobs, and I know you are looking for the prevention of the loss of jobs.

But I suggest to you where we are bound by that most unfortunate and shortsighted State Department agreement in 1962 is to not be able to rebate our own income taxes. The next best thing, I am told we can do, is to defer them. But that still is not going to meet the competition in my judgment. It may help a little bit, but I think we ought to take a perspective of what the international competitive situation is and it is very meaningful in the form of rebate of taxes by our competitors, and if we do not do something about it, I suggest to you we are going to suffer a further loss of jobs.

Mr. GOLDFINGER. Well, on a kind of cost-benefit analysis in terms of what the costs are and what the possible benefits are, we fail to see any rational need for us to support this.

Senator MILLER. Do you have a cost-benefit analysis?

Mr. GOLDFINGER. Well, not in terms of numbers, but we have looked at this in terms of possible benefits, as against probable costs.

Senator MILLER. Have you made one?

Mr. GOLDFINGER. The possible benefits here in terms of everything that we have seen from the Treasury Department are, at very best, uncertain, and at the very best, it is a marginal increase in exports.

On the other hand, the costs will be, after it is in full operation. about $1 billion which will have to be picked up by the American taxpayer, and essentially by the lower and middle income American workingman and wage earner.

Senator MILLER. Well, I have asked the Treasury for their cost-benefit analysis. We were told last year that their research would go into this thoroughly before they came up with a recommendation, and I have asked for their cost-benefit analysis for the record, and if you would care to furnish your cost-benefit analysis for the record I would appreciate it.

Mr. GOLDFINGER. Well, we will——

Senator MILLER. I think we will need something fairly detailed. But if you wish to supply that for the record to offset against any possible analysis I receive from the Treasury I think it might be helpful.

Mr. GOLDFINGER. We will be glad to submit a memo to the committee on this, sir.

Senator MILLER. Thank you.

(The memo follows:)

1. COSTS AND BENEFITS OF DISC

The AFL-CIO maintains that "by permitting corporations to spin off into a new form of corporate subsidiary organization—a so-called Domestic International Sales Corporation—the Administration is cavalierly willing to risk, through the creation of a new tax loophole, the loss of up to $1 billion annually in federal revenue, in the hope of gaining an uncertain, but at best, marginal increase in exports."

The Treasury estimates that over time, exports will increase $1.25–$1.50 billion as a result of enacting DISC. The AFL-CIO contends that this is a highly subjective and overly optimistic estimate.

The DISC provides no incentive to *increase* U.S. exports. The benefits of tax deferral, under the proposal, would flow to all firms exporting goods, if the export trade is conducted by a DISC subsidiary, especially set up for that purpose—regardless of whether such exports increase, decline or remain stable.

The DISC tax benefits would go to some $33 billion of existing export sales, in order to induce a $1.25–$1.50 billion increase, if the Treasury's optimistic estimates are valid. In other words—using the Treasury's own estimates—95% or more of the tax benefits would go for exports that already exist.

One of the most compelling arguments against the use of tax incentives, is that they are inefficient—that tax benefit windfalls are wasted on beneficiaries for doing what they are already doing. Using the Treasury's estimates, the DISC "incentive" is grossly inefficient, with 95% or more of the tax benefit going for existing exports.

The annual loss of federal revenue, due to the adoption of DISC according to Treasury estimates, would be $630 million. However, the Joint Committee on Internal Revenue Taxation estimates the annual loss to be in the range of $720–$925 million, a 10-point cut in the tax rate for export corporations, using DISC. The loss in revenue would have to be made up by other taxpayers—by individuals and by corporations not in the export business.

In order to induce the outside estimate of a $1.25–$1.50 billion increase in exports, over time, the Treasury admits, by its own estimates, that it would give up $630 million in federal revenue—and the Joint Committee's estimate is a revenue loss of $720–$955 million. Hence, the nation's taxpayers are being asked to pay about 40 to 50 cents in taxes, so that export corporations may "over time" expand their export sales by $1.00—using the Treasury's revenue-loss estimate. By using the Joint Committee's revenue-loss estimate, the cost to the taxpayer would be approximately 50 to 76 cents for each $1.00 increase in export-sales, induced by DISC. And both of these cost-estimates are based on the Treasury's subjective and optimistic estimate of the additional exports that will be induced by DISC over time.

If one takes a less optimistic assumption about the DISC-induced extra exports—assuming merely a marginal increase—the cost to the taxpayer would possibly be greater than the increase in exports, due to DISC. That would be the case, if, for example, the amount of DISC-induced exports were merely $500 million, while the revenue-loss was about $600 to $900 million. Such eventuality may be closer to reality than the Treasury's optimistic assumptions about DISC-induced extra exports.

Surely, the Treasury can find better things to do with $630 million to as much as $955 million a year than to finance a DISC operation, in the hope of gaining an uncertain, small and probably marginal addition to exports.

Moreover, the important issue of the deteriorating U.S. position in world trade should be handled directly through appropriate legislation and measures in the related areas of trade and investment, rather than through tax subsidies.

2. THE ISSUE OF RETALIATION

This issue is frequently grossly exaggerated and posed in the wrong way. Moreover, it is often posed in scare-propaganda-terms that becloud the real problems we face, as a nation, in international economic relationships.

The fact is that all nations, these days, attempt to manage their national economies. In this effort, there are direct and indirect barriers to imports, as well as direct and indirect subsidies for exports. Since the U.S. is relatively the most open, major industrial economy in the world, U.S. exports are thereby retarded, while we are simultaneously faced by a rising tide of imports into our relatively open, huge and lucrative market.

As a result, the AFL–CIO insists that the U.S. government change its posture and policies to move ahead for an orderly expansion of world trade, with U.S. considerations as the starting point for U.S. policy and posture. Such change in U.S. government policy and measures would represent a much-belated U.S. adaptation to the world of the 1960's and 1970's, rather than U.S. retaliation.

Such action by the U.S. government may possibly be proclaimed as U.S. retaliation by some foreign observers—particularly, if such propaganda claims are bolstered by statements of U.S. government officials. But action by the U.S. government to adapt its policies to the realities of the world can hardly warrant, in rational terms, retaliation against us.

The need for the U.S. government to modernize its policies in trade and investment is clear, in the AFL–CIO's view. And it should be done in terms of the interest of the U.S. as a nation, and in the interest of American workers and communities. The U.S. has as much of a right to act in the interest of the American people, as other nations do in their interest, as they see it.

The CHAIRMAN. Senator Hansen.
Senator HANSEN. Thank you, Mr. Chairman.

INTERNATIONAL FAIR LABOR STANDARDS IN WORLD TRADE

Mr. Goldfinger, on page 4 of your testimony and at point No. 3 you recommend measures that the U.S. Government, you felt, should initiate or should implement, and you said:

To press in appropriate international agencies for the establishment of international fair labor standards in world trade.

Now, you and I are well aware of the fact that some many weeks were taken in just discussing the shape of the table at the Paris peace talks.

With that in mind, I call your attention to certain remarks in the Congressional Record. First, one made by Congressman Dent wherein he said

"In steel, in which the Japanese are now number one in the world," he noted, "that our workers are paid more in fringe benefits than Japanese workmen receive in wages," and he quotes Congressman Burke as saying, "We are faced with competition from Korea where children are paid 6 cents an hour, women 7 cents, and men 10 cents an hour for a 10-hour day. We have exported our technology overseas and American investors are sending their money overseas to produce goods, to ship back here to put their own company workers out of jobs. When do you think this kind of policy is going to end?"

I call attention also to testimony submitted by Mr. O. R. Strackbein, the president of Nationwide Committee on Import-Export Policy, delivered September 29, I believe, before the House Ways and Means Committee wherein he said:

Unfortunately those countries did not adopt that part of the American equation that calls for broad consumer purchasing power based on higher wages. Therefore their production outruns their consumer purchasing power or threatens to do so. They need a foreign market for their surplus output which could be sold at home if wages were raised sufficiently. They look instead to this country for an outlet.

I would like to ask you, sir, if it is not your conviction if foreign countries were paying wages comparable to what the typical American worker makes here they would have not as much reason to look toward America as an outlet for their surpluses as they do at the present time?

Mr. GOLDFINGER. Well, I think it is absolutely true. But even if their wages and fringe benefits and social benefits were to be improved in light of their very rapidly rising productivity, and if they emphasized the development of the domestic markets, rather than the major emphasis or sole emphasis on exports, primarily to the United States, we would be getting a better balanced economic and social development in many of these developing countries. I certainly agree with you, sir.

But, from our end here, one of the probliems is, as you stated in one of those quotes, that our companies and, to some degree, the U.S. Government, have been exporting American technology. With U.S. technology operating abroad in many of the countries of the world, globally, in fact, they achieve productivity levels—productive efficiency levels—that are fairly close to ours, while their wages and fringe benefits paid to workers are about 50 to 95 percent lower than here.

I do not know, for example, about the wages paid to children in South Korea, but we do know from evidence reported in the New York Times, and elsewhere, that wages paid to Korean workers are somewhere in the area—wages and fringe benefits, that is—somewhere in the area of 12 to 15 cents an hour.

Operating with American technology, the unit cost differentials are tremendous. The possibility of competing or talking of competing with that kind of stuff is a sheer impossibility at this point.

Senator HANSEN. Do you share my strongly held conviction that while there may be some long-range goals, some prospects that we should pursue, that the immediate problem is a very real problem facing the typical American worker today as to whether he is going to have a job or whether he is not.

If the present trends continue, if we continue to make it easier for companies, many of whom are American-owned, to export their technology, to export their manufacturing processes, and to take advantage of cheap, relatively cheap, foreign labor as compared with wages in this country, that we are going to put a lot more people out of a job?

Mr. GOLDFINGER. I agree with you, sir.

QUOTAS AS A STOPGAP MEASURE

Senator HANSEN. Is there any better way, in your opinion, than to impose some quotas as stopgap measures to protect the American jobs, that we have now?

Mr. GOLDFINGER. Well, as a stopgap I agree with you that what is needed now immediately is a stopgap measure in the face of the kinds of problems that you have been posing. We need quota legislation, and we need it immediately. We need quota legislation to effectively curb the rising flood of imports not only of textiles, apparel and shoes, but also the whole broad area of electrical equipment, consumer electrical goods, steel, and various other products.

We have been losing out in one product after another in recent years. In the past several years, the United States has become a net importer of steel, autos, trucks, and parts and various other products, in addition to textiles and apparel.

Furthermore, at this point the United States hardly produces any radios any longer. We have lost roughly about half or more than half of our black and white television production. In other words, half or more than half of the black and white television sets sold in the United States, frequently with American trade label, are produced abroad.

We are losing out rapidly in the production of color television sets, of cassettes, and we are losing out very rapidly in brand new kinds of things, like video tape recorders, where American corporations have already licensed their patent agreements to foreign companies or plan to be producing these new kinds of consumer electrical goods in foreign subsidiaries.

You can go down the line—typewriters, electric calculators, components of computers. We are not only talking of old industries, we are also talking of new, relatively sophisticated industries and products. This is a vast problem that we face here.

DISPLACEMENT OF AGRICULTURAL LABOR

Senator HANSEN. Just one final question, Mr. Goldfinger. Is it not true that—and maybe I should not use the word consensus—but I have gained the impression that a majority of so-called "experts" in this field seem to say that America should concentrate on the manufacturer of sophisticated materials and that we are bound to lose out in the field of agriculture, that is, in fields where I am aware of the fact as I know you are, that agricultural employment has steadily decreased. There has been a great outmigration from the rural areas to the cities. These people are the first on relief rolls and the last to be employed because of their lack of merchantable skills.

With this sort of background, does not the situation insofar as some agricultural exports go, fly in the face of what most of the experts seem to recommend as the long range course, for American workers?

Mr. GOLDFINGER. I think so, and I think these experts are either ignorant or are irresponsible or maybe a combination of both.

The very rapid displacement of labor from agriculture has helped to produce our very severe urban problems. It is not the only reason, but it is one of the reasons for our very severe urban problems.

The very rapid displacement of employment from coal mining, where the great emphasis was on efficiency—which is to the good—created other problems. We seem to know how to produce distressed economic areas, and for years now we have the Appalachia problem, for example.

But we have not been solving the problems that are created by these very rapid changes that are taking place. I think that it is time for the U.S. Government to take a hard look at these rapid changes and to put some kind of curbs and some kinds of supervision on them, in terms of the American national interest and in terms of the interest of the American people as a whole.

Senator HANSEN. No further questions, Mr. Chairman.

Senator FULBRIGHT. Could I clarify that about agriculture. Were you suggesting that our agriculture was not as efficient as the foreign agriculture?

Mr. GOLDFINGER. Oh, no. I think our American agriculture is fantastically efficient.

Senator FULBRIGHT. I thought so. They are the ones I am interested in, particularly our own.

Senator HANSEN. Would the Senator yield?

I would like to observe it is becoming largely mechanical. There are not very many workers.

Senator FULBRIGHT. It is very true. It is efficient and competitive, and we can sell abroad and we can protect it. We cannot sell it against the quota and that is what bothers me about this whole affair, that agriculture through the years has contributed to our balance of trade very substantially, and still does, such as it is.

Mr. GOLDFINGER. But, Senator Fulbright, we have to recognize that to the extent that we, in the United States do have quotas, we have quotas on agricultural products to protect agriculture, and American industry and American industrial workers have not been protected at all or hardly at all.

Senator FULBRIGHT. What quotas do you have in mind?

Mr. GOLDFINGER. Oh, there are various quotas on sugar, for example.

Senator FULBRIGHT. Well, sugar is a very special thing. Sugar—there is no other crop like that. This is an outrageous program, I agree with that. But that is not typical of agriculture. That has been boondoggled for a long time for certain beet sugar producers.

Is that the only example you have?

Mr. GOLDFINGER. Well, I think there are others.

Senator FULBRIGHT. I hope you won't use that as typical. That is a real scandal and has been for a long time. But that is not agriculture's fault.

Mr. GOLDFINGER. I am not saying it is agriculture's fault, at all.

Senator FULBRIGHT. It is not economic. That is the one big crop that is not economic, and could not compete, and had to be protected in a very special way and with special means to get it done. But that is not agriculture that I am talking about, and that is the only one I can think of that is like it.

The CHAIRMAN. With regard to this quota matter, if we did have quotas on some of these items that you think we should have quotas on, I would take it you would have quotas on beyond what is in this bill. You would have quotas on electronics——

Mr. GOLDFINGER. Yes, we advocated an orderly marketing approach to this problem in which there would be a mechanism to place quotas on any product line in which the imports are rising very rapidly and disrupting U.S. production and U.S. employment in the U.S. market.

The CHAIRMAN. Let me ask you about that.

Mr. GOLDFINGER. We certainly agree with quotas on apparel, textiles, and shoes. We go further and say that we urgently need an orderly marketing approach, with a mechanism for setting quotas on other products, when the rise of imports of such products creates problems for U.S. employment.

The CHAIRMAN. Let me ask you about one simple situation.

Mr. GOLDFINGER. Sure.

FOREIGN QUOTAS

The CHAIRMAN. Are there impediments to selling American automobiles in Japan?

Mr. GOLDFINGER. There sure are.

The CHAIRMAN. As a matter of fact, it is practically impossible to sell them over there because of the policy of that government; isn't that correct?

Mr. GOLDFINGER. That is right.

Senator FULBRIGHT. What is the nature of it, would the Senator say, what is the nature of the impediment, the quota?

Mr. GOLDFINGER. I do not know the nature of the impediment in Japan. Japan has more quotas on more goods than any other major industrial country in the free world, so that, perhaps, they have a quota or similar arrangement on autos.

The CHAIRMAN. Japan, the last time I looked at it, had about $1.5 billion favorable balance of trade with the United States. The Japanese are shipping large amounts of textiles, automobiles, steel, and electronics. Couldn't we just say to them: "If you are going to have to send us all these commodities you are shipping, you will have to remove your import barriers and buy about an equal amount from us or else with somebody who is trading with us with whom we have a favorable balance so that those dollars and that gold can eventually find its way back to where they started out from? You can't have it both ways—inundating our market with your goods, while protecting your own market." Couldn't we sell an awful lot of soybeans and rice and various other things if we did business in that fashion?

Mr. GOLDFINGER. Oh, I think so, sir.

The CHAIRMAN. Now, with regard to Europe, I understand we have a favorable balance with them. Of course, we do buy a lot from them, including automobiles. Are there not a number of impediments in selling American automobiles over there?

Mr. GOLDFINGER. There are impediments, and they do that by weight and various technical ways. There are impediments in Western Europe to the sale of American automobiles; yes, sir.

The CHAIRMAN. Mainly by nontariff barriers, road taxes for example.

Mr. GOLDFINGER. Right.

Senator FULBRIGHT. Could I ask, just to clarify this, isn't the greatest impediment to Japan's selling an automobile its price and size? It is a small country with narrow roads, and they do not want big cars costing a lot more than their own. The same way in Europe, our price is not competitive.

Mr. GOLDFINGER. But all of that is undoubtedly true, sir. But, nevertheless——

Senator FULBRIGHT. What I asked was, is there a quota. I mean, do they put up a quota against cars or isn't it the economic facts of life? What you just responded to the Senator from Louisiana leads me to say that it seems to me the whole trend of this conversation is the displacement of the so-called free enterprise system which we used to pride ourselves upon. The description of what he mentioned there about trading is exactly the system the Russians use now; isn't it?

It is the way they do their foreign trade. It is more or less a barter's basis.

Mr. GOLDFINGER. No; that is state trading.

Senator FULBRIGHT. It is on a barter basis.

Mr. GOLDFINGER. But what exists in Japan and what exists in Western Europe are managed national economies. The Keynesian revolution in economic thinking has gone much further in those countries than in the United States.

They manage their national economies, and they manage their investment and trade policies, so that what you point out about the sale of American automobiles, in Japan or in Europe, is partly true in size and price but not entirely true. Those governments have impediments to the sale of American automobiles in those countries.

Senator FULBRIGHT. The system that the Senator from Louisiana sort of described to you very briefly is very similar to that followed by the Russians and by other Socialist countries.

I am not trying to pass judgment on it. Maybe we have gotten into a situation in the competitive world where we have to follow that. But I think it is so important that we ought to know what we are doing, that is all I am suggesting.

On the one hand, that we ought not to continue to talk about free enterprise and competition, the life of trade, and then proceed down the same road that the Socialist countries are. If we are going to proceed that way we ought to acknowledge it and follow it and do it, and maybe that is the way we have to do it. I am not saying we do not. I do not know, to be frank about it.

The CHAIRMAN. I just wanted to make this clear for the record with regard to Japan. I think I want to trade with Japan. I would like to see it reciprocal. They have import licensing on virtually everything. Then there are some 98 products that are subject to quotas, so that——

Senator FULBRIGHT. Would you put that in the record? Are our automobiles under the quota?

The CHAIRMAN. Japan had a tariff of 17 percent ad valorem on large automobiles, those with a wheelbase of 270 centimeters. Ours is about 3 percent. In addition, virtually everything is subject to import licensing, some of it is rather automatic, but virtually everything is subject to an import license, and 98 products are subject to quotas. I will be glad to provide that for the record.

(The material referred to follows:)

Japan's Import Quotas

1. Live horses
2. Fresh grapes
3. Fresh apples
4. Frozen pineapples (not containing sugar)
5. Black tea
6. Flour, meal and flakes of potato
7. Vegetable oil
8. Margarine and shortening
9. Smoked scallops
10. Cake mixes
11. Macaroni and the like
12. Edible starches
13. Puffed rice, corn flakes and like cereals
14. Frozen pineapple (containing added sugar)
15. Whiskey
16. Residues of starch
17. Oil cakes
18. Natural graphite
19. Tungsten ore
20. Coke
21. Antibiotics
22. Preparations of antibiotics
23. Color film
24. Patent leather and its imitations
25. Leather apparel
26. Charcoal
27. Ramie
28. Embroidery
29. Parts of leather footwear
30. Synthetic, precious or semiprecious stones
31. Tool tips and similar products
32. Water-cooled diesel engines and automobile engines
33. Typewriters
34. Kaoliang and other grain sorghums
35. Sausages and the like
36. Unroasted iron pyrates
37. Soda ash
38. Sodium glutaminate
39. Live swine

Japan's Import Quota—Continued

40. Molasses
41. Flavored and colored sugar
42. Flours and meals of sago, manico and arrowrootes, etc.
43. Malt
44. Starches
45. Coal
46. Lignite
47. Dextrins, glues of dextrins and starches
48. Cattle and horse leather

Meat

49. Live animals of the bovine species, excluding buffaloes
50. Meat and offal of bovine animals and pigs, excluding tongues and internal organs
51. Ham and bacon
52. Prepared or preserved pork or beef

Dairy products

53. Fresh milk and cream
54. Milk and cream, processed
55. Processed cheese
56. Ice cream powder and like products.

Marine products

57. Herring, cod, yellow-tail, mackerel, sardines, horse mackerel, etc.
58. Hardroe of cod and herring
59. Scallops, cuttlefish and adductors
60. Edible seaweeds
61. Other seaweeds
62. Flours and meal of fish

Cereals

63. Flours of wheat, rice, barley, other grains
64. Groat and meal of grain

Fruits and preparations

65. Fresh oranges
66. Preserved oranges
67. Tomato ketchup, tomato sauce and mixed seasonings chiefly consisting of sodium glutamate
68 Pineapples containing added sugar or spirit, fruit pulp and roasted ground nuts
69 Fruit puree and fruit pastes
70 Fruit juice (excluding lemon juice) and tomato juice
71 Nectar

Sweets

72 Rock candy, cube sugar and loaf sugars
73 Grape sugar, milk sugar and malt sugar not containing added sugar. Sugar syrup, caramel and artificial honey
74 Sugar confectionary (excluding chewing gum)
75 Chocolate confectionery
76 Cookies, biscuits and crackers

Starches

77 Mashed potatoes and potato flakes, tomato puree' and tomato paste
78 Artichokes and other similar roots

Oils and fats

79 Ground nuts (excluding those for oil extracting purposes)

Others

80 Beans and peas
81 Menthol
82 Peppermint oil
83 Compound feed

Minerals

84 Sulphur
85 Fuel oil

Hides, skins and their products

86 Sheep and lamb skin leather
87 Goat and kid skin leather
88 Leather or furskin footwear

Machinery

89 Steam turbines (with a rating of more than 400,000 KW)
90
91
92 Digital Computers and Accessories and components
93
94
95 Electronic telephone switchboard
96 Integrated circuits (with 35 elements or more)

Others

97 Ethyl Alcohol
98 Prepared dressings for starching

AGRICULTURAL QUOTAS

The CHAIRMAN. In regard to our agricultural situation, we do have quotas on meat and dairy products, wheat, peanuts, and others, and we have a provision in the agricultural law where quotas can be imposed on virtually everything. Moreover, our agricultural exports are generally subsidized, and $1.5 billion of it goes under Public Law 480, which is just a matter of buying the taxpayers' money and giving it away.

Well, thank you very much.

Mr. GOLDFINGER. Thank you, sir.

The CHAIRMAN. Now, the next witness will be Mr. D. M. Kendall, chairman of the Emergency Committee for American Trade. I understand Mr. Bob McNeill will testify.

STATEMENT OF ROBERT L. McNEILL, EXECUTIVE VICE CHAIRMAN, EMERGENCY COMMITTEE FOR AMERICAN TRADE

Mr. McNEILL. Thank you, Mr. Chairman. Mr. Kendall is unable to be here.

Chairman Long and members of the Finance Committee, I am Robert L. McNeill, executive vice chairman of the Emergency Committee for American Trade. I appreciate this opportunity to appear before you on behalf of ECAT, as our committee is frequently called.

Senator FULBRIGHT. Is this a new committee?

Mr. McNEILL. It is a committee, sir, formed in 1967. Did you receive, sir, this list of our membership with the statement?

I must, however, add that I would have preferred to have ECAT's views presented to you by the American business leaders who formulate them. When the House Committee on Ways and Means held its hearings on the President's trade bill and related matters, ECAT had as its spokesmen, the heads of four major American corporations, none of whom were able to be in Washington today to meet your call for testimony given to us yesterday.

The views I will present have been thoroughly considered by the presidents or chairmen of the 54 companies who are members of ECAT. Their names and positions are given in the reprint of the testimony presented before the Committee on Ways and Means. I respectfully request that the text of this testimony be included in your record. This previous testimony does not deal with the specific legislation that is the subject of your hearings.

Mr. Chairman, since the announcement of these hearings yesterday, I have heard expressions of dismay that this legislation, which is so fundamentally important to millions of Americans, will receive but 2 days of hearings, so that many who would like to appear won't be able to. I believe this concern is the result of the fact that the most significant features of the bill before you, features that would change the course of U.S. trade policy, have never been the subject of any public hearing or of any open session of the Congress or a committee of the Congress.

ECAT, itself, was formed in 1967 out of a deep conviction on the part of its members that trade policy was of the utmost importance—that freer trade was essential to the well-being of the American economy and to the immediate and long-range welfare of the private enterprises we represent. Let me add that in all our policy statements, in our testimony, in our advertisements and in our publications, we have continually stressed our belief that trade should not only be freer but also fairer and that no American worker, no American farmer and no American company should be asked to suffer alone for policies that benefit the Nation as a whole.

That is why we strongly recommend passage of H.R. 14870, the original administration trade bill. That is why we urge the defeat of the trade bill amendment to H.R. 17750 now under consideration by your committee.

There are certain to be a number of witnesses who will appear before you—and many others who will only be able to submit statements—who will call to your attention the general effects of this legislation. Speaking on behalf of practical businessmen—and not free trade theorists—I would prefer to deal with the specific damage it will cause American economic interests.

The trade bill amendment introduces a quota system into American trade policy.

It provides for almost immediate quotas on textiles, apparel, nonrubber footwear and manmade fibers.

It provides for tariff quotas on mink furskins and glycine.

It provides for latent quotas on many other products.

As such, it is an alien system, more akin to the disappearing European and Japanese practices than to anything we have ever known before in American trade policy.

ECAT is more than sympathetic to the plight of any American injured by imports. We strongly support help for them in the form of adjustment assistance and prompt and effective relief through escape clause provisions that are consistent with international obligations.

The administration's original trade proposals, in our judgment, would provide these.

The trade amendment, in the cases of textiles and shoes, would actually bypass adjustment assistance and disregard the Tariff Commission. For other products, the escape clause provisions contained in the trade amendment establish new and untried criteria for granting relief in the form of import quotas or higher tariffs. These criteria are dangerously loose.

In the case of products where imports supply 15 percent of the American market and where certain other conditions are met, domestic producers would receive more assurance of quota protection than in other industries where injury might be greater but where the arbitrary formulas were not met.

Senator BENNETT. May I ask you a question at that point?

Mr. McNEILL. Yes, sir.

Senator BENNETT. When you use a figure of 15 percent, do you mean 15 percent or more or 15 percent or less?

Mr. McNEILL. I am referring to the provision in the bill which provides that if an imported product represents 15 percent or more of domestic consumption.

Senator BENNETT. So that is "or more."

Mr. McNEILL. Yes, sir.

Senator BENNETT. Thank you.

Mr. McNEILL. With textiles and footwear, it is possible to make rough calculations on how much trade will be cut off by these quotas. Voluntary agreements may reduce the impact, but without them, up to $500 million in imports could be rolled back. Every dollar of these lost imports, of course, could be matched, or more than matched by dollar losses in exports.

The effect of the arithmetic and automatic escape clause provisions is less certain. But other trading nations have begun their calculations on the damage that might be done to their exports. The early returns are ominous. At a meeting with European officials and businessmen last month in Brussels, members of ECAT were presented with preliminary figures that indicate the common market along fears that $1.6 billion of its exports could come under the shadow of these arithmetic calculations.

The press reported this week that the British Government has made similar estimates and found 120 of its exports to the United States with a value greater than $240 million could be threatened.

Needless to say, our trading partners will exercise their rights under international agreements to demand compensation for any trade loss or will retaliate against American exports. In addition to estimating the effect of these mathematical formulas on their exports to the United States, we also find foreign officials calculating the effect that the arithmetic provisions would have if they applied them to their imports from the United States. Such arithmetic criteria, if adopted abroad, could badly damage our sales of products like aircraft, computers, farm machinery, and many agricultural commodities.

Proposals for so drastic a change in American trade policy as those before you would seem to indicate that our Nation was in severe straits in terms of its trade balance and had exhausted all known alternatives. The situation is, in fact, quite the opposite. The recovery in our traditionally favorable balance-of-trade in 1970 has been a shining light in the American economy. It was one of the first indications that the pace of inflation was receding. Our 1970 trade surplus is running at an annual rate of $3 billion—more than double the surplus of last year.

MISLEADING NATURE OF TRADE STATISTICS

The CHAIRMAN. Did you see my statement in the Congressional Record on the misleading nature of our trade statutes?

Mr. McNEILL. I did not see that, sir.

The CHAIRMAN. I suggest that you see it. I will put it in the record at this point.

(The material referred to follows. Hearing continues on page 94.)

[From the Congressional Record, Sept. 17, 1970]

OFFICIAL MISSTATEMENTS ABOUT OUR REAL FOREIGN TRADE POSITION

Mr. LONG. Mr. President, the International Monetary Fund has recently issued a report warning against the consequences of prolonged U.S. balance-of-payments deficits. We have been running deficits in our balance of payments in every year since 1950 with the exceptions of 1957 and 1967.

For the first half of 1970 the balance-of-payments deficit, under the traditional basis of measurement, was running at an annual rate of $6 billion. On another basis of measurement—the so-called official settlement method—the balance-of-payments deficit for the first half of this year was running at an annual rate of $9 billion.

One of the major problems we face in searching for solutions to our balance-of-payments problem is misleading information on our balance of trade.

The Department of Commerce has recently issued monthly trade statistics which have been widely reported by the press as showing "a booming surplus" of exports over imports, "running at an annual rate of more than $5 billion" for June and July. It has been suggested that this so-called surplus indicates that the country would be better off without the major trade legislation awaiting House action that would impose mandatory import quotas on textiles and shoes, and facilitate import limitations on other products. To cite 2 months' statistics as evidence of a basic reversal in our trade position is grasping at straws. It is a classic example of how misleading facts create erroneous conclusions.

The Department of Commerce statistics give a false impression that this country enjoys a highly favorable balance of trade when, in fact, if our trade balance were accurately tabulated, it would show an unfavorable balance of trade.

For too long the public has been misled into believing that we have a "favorable balance of trade." The proponents of our "one way free trade philosophy" have argued that our trade negotiations have been an unmitigated success since they have resulted in a "favorable balance of trade." Even our negotiators have put themselves at a disadvantage by using our misleading statistics and providing their negotiating counterparts with the ammunition to destroy our negotiating position. All the foreign negotiator has to do is read back the statements of our negotiators about how favorable our trade picture is, and how if we do anything here to protect our industries, they—the foreigners—will retaliate, and our negotiating position is destroyed. If you read back to a man his own words it is hard for him to repudiate the thought behind them.

So here are our own negotiators using misleading trade statistics, misleading Congress, misleading the American public, misleading the world, and defeating their own objectives in representing American interests.

All foreign countries have to do is read back to them their own false statements which they make. Those false statements are picked up and published in the New York Times, which is probably the only American newspaper that diplomats in foreign governments usually read, and they cannot understand why the United States is trying to save some domestic interests, when our national policy requires it.

In past years—during the first half of the sixties—our misleading statistics indicated that our balance of trade was in surplus by $5 to $7 billion. In more recent years, since 1967, this so-called surplus has dwindled to a rate of about $1 billion. So, even under the most rosy method of calculation, the balance of trade has deteriorated sharply over the last 4 or 5 years.

But, Mr. President, this is not the whole story. Those official figures belie the fact that our balance of trade was never as favorable as the official figures would suggest, and that we have a large net deficit on commercial exports and imports.

Under the traditional method of calculating our trade balance, our exports include foreign aid giveaways which do not earn a penny of foreign exchange for the United States. When we give wheat or corn away to India, for example, the farmer receives his money from the U.S. Government, not from the Indian Government. The American taxpayer pays for the wheat, not the Indian Government. As far as our balance of trade is concerned, we just as well might be dumping it into the ocean. In fact, we would save money, because we would save the ocean freight.

On the import side of the equation we do not include the cost of insurance and freight in computing imports, even though most other countries in the world, the United Nations, and the International Monetary Fund calculate implrts on a c.i.f. basis. The Tariff Commission has done some calculations showing that if you computed our imports, on the same basis that most orher countries compute their imports, it would increase our import value by 10 percent.

So, Mr. President, if we deduct the foreign giveaways from our exports and calculate our imports the same way that most foreign countries do, instead of having a $1.4 billion balance-of-trade surplus—last year—in 1969, we would have about a $4.4 billion balance-of-trade deficit. In other words, the statistics overstate our position by more than $5 billion.

Let us look at what has happened in 1970. Our exports are reported to total $24.9 billion for the period January through July. If we subtract the foreign aid giveaways, the net figure would be about $23.4 billion. Our imports, f.o.b., were running at $22.9 billion and, if we add the c.i.f. factor of 10 percent, this would increase to $25.2 billion, leaving us with a net unfavorable balance of trade of $2.3 billion. So, what is widely reported in the press as "a booming surplus" actually turns out to ve a blooming deficit.

Let us look at the July data which is being widely circulated as evidence that we do not need the major trade legislation just about to pass the House. The Department of Commerce statistics show exports of $3,683 million and imports of $3,242 million for a net "surplus" of $441 million. Some analysts multiply this by 12 and say we are running a surplus of over $5 billion.

Now let us see what happens if we revise these misleading figures. Take out the foreign aid giveaways and our exports drop some $200 million to $3,483 million; add the c.i.f. factor and our import bill for July increase by some $324 million to some $3,566 million, leaving us with a net deficit of $83 million for July. If we then multiplied that by 12 we could say our balance of trade is running in deficit by $996 million. Not a $5 billion annualized surplus, Mr. President, a $996 million annualized deficit for that month on that basis of calculation; and that is the best month so far this year.

I am not going to elaborate on the fact that what has been hailed as a big export surplus in June or July, occurred at a time of domestic recession, growing unemployment, and huge balance-of-payments deficits. If we need a domestic recession to create a phony trade surplus is that any cause for rejoicing about our competitive position? It suffices to say that the trade statistics currently published are a misleading indicator of the competitive position of this country in world markets and they should be changed to more accurately reflect our true competitive position.

Mr. President, I ask unanimous consent to have printed in the RECORD a chart which shows how completely misleading are the figures offered by the American negotiators to their own Government.

There being no objection, the chart was ordered to be printed in the RECORD, as follows:

BALANCE OF TRADE, 1960-69

[In billions of dollars]

	Total exports	Less Government-financed exports	Commercial exports	Total imports f.o.b.	Estimated imports c.i.f.	Overall balance	Commercial balance
	(1)	(2)	(3)=(1)−(2)	(4)	(5)[1]	(6)=(1)−(4)	(7)=(3)−(5)
1969	37.4	2.2	35.2	36.0	39.6	+1.4	−4.4
1968	33.0	2.9	30.1	32.0	35.2	+1.0	−5.1
1967	39.9	2.8	28.1	26.8	29.5	+4.1	−1.4
1966	29.4	2.7	26.7	25.6	28.2	+3.8	−1.5
1965	26.7	2.6	24.1	21.4	23.5	+5.3	+0.6
1964	25.7	2.8	22.9	18.7	20.6	+7.0	+2.3
1963	22.4	2.6	19.8	17.1	18.6	+5.3	+1.2
1962	21.0	2.1	18.9	16.4	18.0	+4.6	+0.9
1961	20.2	1.7	18.5	14.5	16.0	+5.7	+2.5
1960	19.6	1.6	18.0	14.7	16.2	+4.9	+1.8

[1] Imports including the cost of insurance and freight.

Source: Survey of Current Business.

Mr. LONG. I ask unanimous consent that another chart, showing the July trade figures before and after adjustment and also a statement of the American Federation of Labor, which has changed its position on foreign trade because it has been forced to conclude that what I am saying here is right, as well as for other reasons that are equally cogent, be printed in the RECORD at this point.

There being no objection, the chart and the statement were ordered to be printed in the RECORD, as follows:

July trade data

[In millions]

Traditional method of measurement:	
Exports	$3, 683
Imports	3, 242
Balance	+441
Revised methods of calculation:	
Exports [1]	3, 483
Imports [2]	3, 566
Balance	−83

[1] Government-financed exports estimated at $200 million ($95 million P.L. 480; $105 million AID).

[2] Imports calculated on c.i.f. by Tariff Commission +IMF (10 percent difference).

THE EXPORT OF AMERICAN JOBS

(By Andrew J. Biemiller)

The United States position in world trade deteriorated in the 1960s, with adverse impacts on American workers, communities and industries. The deterioration continues in the 1970s, with further displacement of U.S. production and loss of American jobs.

The basic causes are major changes in world economic relationships during the past 25 years, which accelerated in the 1960s. Among these changes are the spread of government-managed national economies, the internationalization of technology, the skyrocketing rise of investments of U.S. companies in foreign subsidiaries and the mushrooming growth of the U.S.-based multi-national corporations.

U.S. government policies and doctrines, which were developed to meet world economic conditions of the 1930s and 1940s, are utterly unrealistic today. Moreover they contribute to undermining the U.S. economic position in the world. Their continuation in the 1970s spells further losses for U.S. production and employment.

Solutions cannot await additional long-range studies. Action must start now. Workers, whose jobs are at stake—from a rising tide of imports, frequently produced with modern technology at wages 50%–90% below U.S. levels—must not be told to wait another year or two or three for the findings of yet another study, while the displacement of U.S. production and export of American job accelerates.

Changes in world economic relationships have made two old concepts—"free trade" and "protectionism"—outdated and increasingly irrelevant. U.S. government policy must face up squarely to the increasing export of American technology and jobs by U.S. companies for their own private advantage. U.S. government policy must also face up to the reality that foreign governments directly and indirectly bar imports from the U.S., while they spur exports to the huge American market.

A thorough revision of U.S. government posture and policies, in the related areas of international trade and investment, is required. The AFL–CIO urges this committee to initiate the legislation needed to enable America so meet the economic realities of the world of the 1970s—for the orderly expansion of world trade, on a reciprocal basis, and the improvement of the U.S. trade position in the interest of the American people.

The U.S. ranks first among nations in world trade. But this rating is essentially based on the huge size of the American economy. In terms of the share of world trade, the U.S. position has been declining throughout the post-World War II period. This decline continued even after the war-ravaged economies of other industrial nations returned to world markets, and it continues at a more rapid rate today.

While U.S. exports continued to increase—although at a much slower pace than that of most other industrial countries—imports also rose throughout the past 25 years. In most of the latter 1960, imports rose much faster than exports. Imports also increased faster than their share of the total national output of goods (excluding services and structures)—from 5.8% in 1960 to approximately 8% in 1969. For many specific industries and products, the impact is much greater than 8%.

Since imports rose much faster than exports during most of the latter 1960s, the reported merchandise trade surplus dropped from about $5 billion in the early 1960s and $7.1 billion in 1964 to $800 million in the 1968 and $1.3 billion in 1969. government-financed AID and PL 480 shipments are excluded from the reported volume of merchandise exports, the U.S. had trade deficits in both 1968 and 1969.

The U.S. trade position has been worsening in composition, as well as volume, with imports of manufactured goods—parts and components, as well as finished products—rising most rapidly.

By 1968 and 1969, the U.S. had become a net importer of steel, autos, trucks and parts, as well as such products as clothing, footwear and glass. A flood of shoe imports absorbed the entire expansion of U.S. domestic shoe sales in the 1960's. Even in electrical and non-electrical machinery, exports increased less rapidly than imports, with clear signs of danger for the period ahead. In consumer electrical products, imports took over major parts of the U.S. market in recent years.

From 1960 to 1969, exports of manufactured goods doubled. But imports of such goods tripled. Imports of finished manufactured goods rose from about 35% of all imports in 1961 to over half of all imports in 1969. In the latter year, when imports generally rose about 8.7%, imports of finished manufactured goods soared 18%.

During the 1960s, the expansion of manufactured exports was strongest in products which are based on advanced technology, such as computers, jet aircraft, control instruments and some organic chemicals. Such industries are generally capital-intensive, with relatively few production and maintenance workers for each dollar of production.

The expansion of exports of most products was hampered by barriers of foreign governments by the sharply increasing operations of foreign subsidiaries and other foreign affiliates of U.S. companies.

Detailed information on the job impact of imports is not available. There are some jobs involved in the transportation and distrubution of imports. However, there are job losses due to imports that compete with U.S.-made products. Moreover, the labor-intensive nature of much of the great import-expansion of the 1960s has caused significant losses of job opportunities, particularly for semi-skilled and unskilled production workers—at a time when such job opportunities were sorely needed. And the shift of imports to relatively sophisticated products has also caused the loss of skilled industrial jobs.

An indication of the deterioration of the U.S. trade position and related job-losses can be found in the substantial change in the competitive nature of imports. In the 1950s, according to foreign trade experts, only about 30%-40% of imports were considered competitive with U.S.-made products, By 1966, according to a report by Secretary Shultz to the Joint Economic Committee of Congress, about 74% of the much greater volume of imports were "nearly competitive with domestic products." About 13% of imports in 1966, were products not produced in the U.S. and another 13% were goods "produced in the U.S. but in short supply," according to Secretary Shultz. Between the 1950s and the latter 1960s, the total volume of imports increased sharply and competitive imports, as a share of the rapidly rising total volume, approximately doubled.

Temporary factors in the 1960s can explain only part of the deterioration of the U.S. trade position. The rising price level in the U.S. since 1965 and the boom of business investment in new plants and machines undoubtedly contributed to the sharp rise of imports and the deterioration of the U.S. position.

But there are basic, underlying causes of the deterioration of the U.S. trade positions. Temporary factors—the rising U.S. price level, the business investment boom and the Vietnam war—merely aggravated them.

The Chase-Manhattan Bank Newsletter for June 1969 predicted a further slippage of the U.S. share of world trade by 1973. Moreover, it predicts a slower rise of exports of "technologically advanced products," while imports of such products are expected to continue to increase rather rapidly. "Thus," states the bank newsletter, "prospects for an improved U.S. trade balance remain dim."

NEW DEVELOPMENTS IN THE 1960'S

Among the major changes in world economic relationships during the past 25 years, which accelerated in the 1960s, have been the following:

1. By the latter 1950s, the war-shattered economies of Germany, Japan, etc., were revivied, with newly installed plant and equipment and increasing strength in world trade. Some effects of such American-aided revival of the war-ravaged economies on the U.S. trade position were to be expected. But these effects have not stablized. The U.S. share of world exports of manufactured goods continued to decline in both the 1950s and 1960s.

However, the desired revival of these war-ravaged economies, in itself, can hardly be the reason for the deterioration of the U.S. position.

2. In the 1960s, another development was the emergence of trading blocs, such as the European Common Market, with its inward-looking, protectionist tendencies.

The Common Market countries have greatly expanded their world trade. As a bloc, the Common Market is now the world's greatest exporter. Yet these Common Market countries maintain barriers to U.S. exports and many of these barriers have been imposed in the past 10 years—despite U.S.-aided economic revival and increasing prowess in world trade.

These major trading nations have not significantly readjusted their trade arrangements—after achieving great export strength—to provide equitable, two-way arrangements with the U.S.

3. In the past 25 years, there has been the spread of managed national economies—with varying degrees of government management, regulation and control over economic activities, including foreign trade and investment. The U.S. is

now confronted by complex governmental economic arrangements in other countries to spur exports (direct and indirect subsidies, etc.) and to bar or hold down imports (direct and indirect barriers). Examples include numerous Japanese quotas on imports, the German border tax and the Mexican border problem.

The Federal Reserve Bulletin of April 1968 reported that "some goods in which the U.S. competitive advantage is large are not freely admitted to some foreign markets. They are subject to quotas, usually stringent health and technical standards, equalization levies and other special import taxes, marketing agreements, and mixing requirements whereby situpulated amounts of local products must be used. Such restrictions have limited U.S. exports of wheat and other grains, tobacco, poultry and some agricultural products; and also coal and a wide range of manufactured products, including computers, autos, heavy electrical equipment, drugs and fabrics."

4. The internationalization of technology has been reducing or eliminating the former U.S. productivity lead in many industries and product lines.

In many products, the lead in technology and productivity, which enabled high-wage U.S. industries to compete successfully in world markets, even against low-wage competition, has been reduced or eliminated.

Deputy Undersecretary of Labor George Hildebrand explained to the National Foreign Trade Council's Labor Affairs Committee in September 1969: "It has often been assumed that high U.S. wages and better working conditions were largely offset by high U.S. productivity and a strong internal market. Increasingly, however, the spread of skills and technology, licensing arrangements and heavy investment in new and efficient facilities in foreign lands have all served to increase foreign producitivity without comparable increases in wages."

Much of the U.S. technology, which has rapidly skipped over national boundary lines, has been developed with U.S. government expenditures, at the expense of American taxpayers.

5. The sharp rise of foreign investments of U.S. firms in foreign subsidiaries—accompanied by licensing arrangements, patent agreements, joint ventures, etc., of U.S. companies with foreign firms—has contributed substantially to the internationalization of technology and its deteriorating effects on the U.S. trade position.

It is estimated that in the past 25 years, U.S. firms established about 8,000 foreign subsidiaries, mostly in manufacturing.

Direct investments of U.S. firms in foreign subsidiaries, plants and other facilities soared from $3.8 billion in 1960 to $10.6 billion in 1969 and an estimated $12.7 billion in 1970—partly financed by outflows of U.S. capital, partly by plowed-back profits and depreciation of foreign subsidiaries and partly by foreign-raised capital. The outflows of private U.S. capital that have financed part of part of these soaring investments have been a major factor in U.S. balance of payments problems.

Foreign subsidiaries of U.S. firms and foreign companies using U.S. license, patents, etc. with U.S. technology—and, thereby, with productivity levels that are close to those in similar U.S. plants—can take maximum advantage of lower wage- and fringe-benefit costs and produce goods at lower unit costs. Many such foreign subsidiary plants, operating with American technology and know-how, pay workers as little as 15 cents an hour.

This development has displaced U.S. production. It has meant the export of American jobs to subsidiary plants of American companies in foreign countries. It has resulted in the loss of exports to third-country markets. It has meant a growing tide of imports from foreign subsidiaries into the U.S. American workers have been the losers.

6. The rapid spread of U.S.-based multi-national corporations—firms with plants, offices, sales agencies, licensing arrangements, etc., in as many as 40 or more countries—is a new factor of growing importance in the deteriorating U.S. position in world trade. They can manipulate the location of operations, depending on labor costs, taxes and foreign exchange rates. They can juggle exports, imports, prices, dividends, from one country to another within the same corporate structure.

Multi-national companies attempt to use a systems approach to global production, distribution and sales. With plants and other facilities spread through numerous countries, multinational firms can and do juggle the production of components and assembly operations, license and patent agreements, distribution and shipping and sales arrangements to maximize the gains of the firm. What finally shows up as U.S. exports and imports is, to an increasing degree, the result of intra-corporate decisions, made by the private mangers of U.S.-based international companies for the private advantage of the firm.

A multi-national corporation can produce components in widely separated plants in Korea, Taiwan and the U.S. assemble the product in a plant in Mexico and sell the goods in the U.S.—with a U.S.-brand name.

Moreover, when such goods are sold in the American market, they are sold at American prices. So the American worker loses his job and the American consumer pays the same price or close to it. The beneficiaries are the U.S.-based multi-national companies.

The fact that other nations have high, and often prohibitive, barriers to U.S. exports, while the U.S. is a relatively open market for industrial goods, means that U.S.-based multi-national companies can have relatively free rein both abroad and at home, while U.S. workers' jobs, incomes and communities pay the price. No wonder that spokesmen for multi-national corporations usually advocate a free trade policy for the U.S.—freedom to manipulate operations, prices, sales, profits, etc., and to ship back whatever they wish, for sale in the U.S. market—for the benefit of the managers and stockholders of the corporation, regardless of adverse impacts on American workers, communities and the nation.

The claims of multi-national corporations that foreign investments always help to boost U.S. exports is not true. A study by the Department of Commerce, reported in the Survey of Current Business, May 1969, stated: "The great majority of U.S. parent companies (and) of foreign affiliates contributed very little of U.S. export trade. This suggests that foreign direct investments by U.S. corporations do not necessarily contribute to the export trade of these corporations.

In fact the operations of foreign subsidiaries often substitute for U.S. exports—to the countries of the subsidiary operations and to third-country markets, with impacts on job opportunities. For example, the Commerce Department reports that in chemicals, non-electrical and electrical machinery—which account for about one-half of U.S. manufactured exports—foreign subsidiaries of U.S. firms exported $1.9 billion in 1965 to third countries, amounting to about one-fifth of all such exports from the U.S.

Moreover, foreign subsidiary operations result in increased imports into the U.S.—frequently displacing U.S. production and employment. In April 1969 Commerce Department report on foreign trade states: "The increase in imports of manufactures has resulted in part from the establishment of plants by U.S. firms in low-wage countries to produce for the U.S. market, as in the case of TV picture tubes and clothing. Precise data are not available to develop this observation fully." The report also declares: "Technology is rapidly diffused among advanced countries. European and Japanese manufacturers are penetrating the American market even in the most advanced product areas where we have been exporting technology. The more rapid rate of increase of imports than exports implies a larger problem in future years. Some of these imports will come from foreign subsidiaries of affiliates of U.S. firms."

The growth of multi-national companies, in the 1960s, has been accompanied by the rapid expansion of international banking—much of it by U.S.-based banks. The London Economist of November 15, 1969, stated: "It is without precedent that banks should have joined forces across national frontiers to establish multi-national institutions with their own separate identities."

These international banks have been servicing and helping to finance the multi-national companies. They move money back and forth across national boundary lines "beyond the effective reach of the national monetary policies of any country," as the London Economist pointed out.

U.S.-based multi-national banks have succeeded, increasingly, in moving beyond the effects of U.S. monetary policy, just as U.S.-based multi-national companies have succeeded in juggling production, distribution and sales across national frontiers, with different laws, customs, taxes, living standards and currencies.

The spreading operations of U.S.-based multi-national companies are an important factor in both the surge of manufactured imports into the U.S. and the absolute slowdown or the slowing rise of U.S. exports in many product-lines.

Foreign trade experts are particularly concerned about the near-future impacts of foreign subsidiaries of U.S.-based multi-national corporations on exports and imports of such major commodities as chemicals, non-electrical machinery including engines, office and metal-working machinery, construction and factory equipment) and electrical products (including generators, power machinery, motors, TV, radios, household equipment and control instruments).

These multi-nationals now account for about one-half of U.S. exports. About 25% are direct transactions between the parent and subsidiaries. Probably another 25% involve the multi-nationals and their other business relations—licensees, foreign patent holders, foreign joint ventures, etc.

A similar or larger percentage of imports is also intra-corporate—involving the transactions of U.S.-based multi-national firms with their subsidiaries and other business arrangements.

These closed-system, intra-corporate transactions are hardly competitive. They are not trade. And "foreign" is hardly the word for them.

The U.S.-based multi-nationals have substantially affected the volume and composition of U.S. exports—through competition with U.S.-produced goods in third-country markets, as well as in the country of the subsidiary. They have greatly affected the volume and composition of imports into the U.S.

At the same time, a large percentage of U.S. exports is affected by the management of foreign trade by foreign governments—direct and indirect subsidies for exports and barriers to imports.

Therefore, most U.S. foreign trade has little to do with what most people consider competition. Text book theories of foreign trade—and government policies based on such theories—are increasingly irrelevant in the real world of trade and investment in 1970.

THE IMPACT OF U.S. TRADE DETERIORATION ON WORKERS

The deterioration of the U.S. foreign trade position has obvious impacts on jobs, on collective bargaining strength of unions, on wages and labor standards in adversely affected industries.

Precise statistics on the job loss of imports are not available and estimates of the job impact of exports are only rough guesses that are clouded by the increasing complexity of trade patterns.

Unfortunately, foreign trade experts usually show little interest and even less knowledge about the employment impacts of developments in foreign trade.

One rough indication of job losses was Secretary Shultz's estimate, presented to the Joint Economic Committee of Congress, that "about 1.6 million jobs in 1966 would have been required in the U.S. to produce the equivalent value" of the 74% of imports into the U.S. that were competitive with U.S.-made products.

Secretary Shultz brought these figures up to date in his statement to this committee last week, when he said: "In 1969, if we had attempted to produce domestically goods equivalent in value to such imports, the Bureau of Labor Statistics has estimated that we would have needed 2.5 million additional workers. . . ."

These rough estimates indicate the loss of approximately 700,000 American jobs in the three years 1966-1969, as a result of the rising tide of imports that compete with U.S.-made products.

Secretary Shultz's estimates omitted the additional job losses due to the sales of foreign subsidiaries in foreign countries, in competition with the U.S.-made products. Anything like a full picture of the job-impact of foreign trade developments is lacking.

The fact of increasing job losses is clear. And recent changes in the composition of exports and imports have been a special burden on semi-skilled and unskilled production workers in an increasing number of industries and product lines.

The loss of job opportunities has occurred at a time of urgently-needed unskilled and semi-skilled production jobs, as well as skilled industrial jobs, in the U.S. labor force, which is growing about 1.5 million persons each year. These are the blue-collar jobs that are being affected by spreading layoffs and production cutbacks.

Production and maintenance workers are being forced to bear most of the burden of the deterioration of the U.S. position in foreign trade. There are the same non-supervisory workers—including skilled employes—who bear most of the heavy burden of the Administration policy of severe economic restraint, as well as the impact of radical and rapid technological change.

Two months ago, for example, The Wall Street Journal provided an illustration. It reported that Zenith Radio Corporation had said it would "reduce its work force by about 3,000 jobs this year, and more than one-third of those laid off will be blacks." The chairman, Joseph S. Wright, said that, in addition to the 3,000 layoffs this year, probably another 4,000 layoffs will occur in 1971.

Why? Because Zenith is building a giant new plant in Taiwan.

The increasing export of American jobs threatens to undermine domestic living standards and the growth of consumer markets at home. When an American corporation exports American jobs, it weakens a part of its potential market. Zenith won't be selling many of its products in Taiwan. It will be paying wages as little as 15 cents an hour so none of Zenith's workers in Taiwan will be able to afford them. And, of course, the workers Zenith lays off here—black and white alike—won't be able to buy them either.

Another story, in the New York Times of May 12, 1970, reported from South Korea, about a Motorola plant, outside of Seoul: "Because labor is less expensive in Korea, production costs are one-tenth those of a similar plant in Phoenix."

The report stated: "George A. Needham, representative director of the Motorola Company's electronic component assembly plant on the outskirts of Seoul, told visitors to the bright, modern factory that total production costs in Korea were one-tenth of costs for similar production at Motorola's plant in Phoenix, Arizona.

"He also noted that it took two weeks less time to train Korean girls to assemble semiconductors and transistors than to teach American girls the same job.

" 'The girls here are more motivated,' explained Mr. Needham, 'Life is tough in this country. These people really need this work.' "

Although this account did not report the wage levels in the Motorola plant, it noted that wages in a nearby plywood plant ranged from $32 to $48 a month, for six-day weeks of 10 to 11 hours of work per day.

There have been other adverse impacts on workers, as well as job losses. Imports are sometimes encouraged as a supposed "discipline" on prices. Often, the American consumer benefits not at all—the imports are sold at the American price. Or, frequently, the price differential to the customer is small and the profit margin to the business widens. The "discipline" is usually most effectively directed to the labor cost—to the workers' collective bargaining strength and their ability to negotiate improved wages and fringe benefits. For example, in 1967 and 1968, the copper imports of major corporations contributed to delaying achievement of a settlement of the strike of U.S. copper workers.

The adverse impacts of the deterioration of the U.S. position in foreign trade are much tougher and more direct on workers than on capital or top-management officials. Capital is mobile—investments can be moved out of an unprofitable business to other industries, companies and countries. Owners and top-management are more mobile than workers. In contrast, workers have great stakes in their jobs and their communities—skills that are related to the job or industry, seniority and seniority-related benefits, investment in a home, a stake in the neighborhood, schools and church.

NEW POLICIES FOR THE 1970'S

In the setting of world economic realities, in 1970, there is an urgent need for immediate action to thoroughly revise government policies affecting international trade and investment.

The choice is not between free trade and protectionist theories. Free, competitive trade relations hardly exist any longer in this world of managed national economics and the large-scale operations of foreign subsidiaries of U.S. companies. It is neither possible for the American economy to hide behind high tariff walls nor to pretend that free, competitive trade relations are possible.

There is a need to: 1) move ahead rapidly for an orderly expansion of world trade, with U.S. considerations as the starting point for U.S. policy and posture, based on the premise that trade is a complex network of interrelationships and 2) establish trade and investment policies to deal with the foreign investments and operations of U.S. companies and banks.

U.S. government measures are required:

1. To stop helping and subsidizing U.S. companies in setting up and operating foreign subsidies—to repeal Section 807 and similar provisions of the Tariff Code, for example, and to repeal the tax provision which permits the deferral of U.S. taxes on the income of U.S. companies from their foreign subsidiaries.
2. To supervise and curb the substantial outflows of American companies for investment in foreign operations.
3. To develop regulations covering U.S.-based multi-national companies.
4. To press, in appropriate international agencies, for the establishment of international fair labor standards in world trade.
5. As a stop-gap in the face of growing unresolved problems, to regulate the flow of imports into the U.S. of a variety of goods and product-lines, in which sharply rising imports are displacing significant percentages of U.S. production and employment in such markets.

ORDERLY MARKETING

The need for guarding against a sharp inrush of imports of any product or component—to prevent adverse impacts on American workers, communities, firms or industries—has become crucial.

The existing escape clause mechanism is woefully inadequate, as experience has unfortunately proven. Even a much-needed, improved escape clause, in itself, is not sufficient to guard against the harmful effects of a rising tide of imports on American workers and the disruption of domestic markets.

The AFL–CIO, therefore, supports the general approach of the Orderly Marketing bill, H.R. 9912, introduced by Congressman James A. Burke of Massachusetts, to stem the tide of imports through the imposition of quotas on imports of a product or component, whenever a significant share of the U.S. market in such a product or component is threatened. International agreements to accomplish this purpose would supersede the imposition of import limitations, but quotas would be established for imports from countries that are not party to the agreements.

This approach provides for the orderly marketing of articles imported into the United States, as well as a flexible basis for allowing foreign-produced products to enjoy a fair share of the growth of the U.S. market in the product or component.

In the Trade Expansion Act of 1962, Congress recognized the concept of orderly marketing in Section 352, which provides for international agreements on such import limitations. But this provision has not worked.

The AFL–CIO urges the Committee to adopt legislation along the lines of the Orderly Marketing bill.

THE ESCAPE CLAUSE

The Escape Clause, under Title III of the Trade Expansion Act of 1962, has not worked satisfactorily.

Both the Administration bill (H.R. 14870) and the bill introduced by the Chairman of this Committee (H.R. 16920) recognize the need to remove the requirement to find a causal relationship between a tariff concession and the, injury that results from imports. Thus, both bills would remove the burdensome, technical impediments to finding injury from imports.

However, these two bills differ on whether the imports are a "primary cause" of injury, as in the Administration bill, or a "substantial cause," as in Chairman Mills' bill. We believe that the Chairman's bill provides a more realistic test and we support it. Our concern is that imports be recognized as a cause of injury.

Both bills propose changes that affect the government's authority to reduce duties, in compensation for an Escape-Clause action. We believe that the 20% request of the Administration is too great and support the proposal of H.R. 16920, as more in line with the AFL–CIO request that this authority should be "minimal."

However, the most important cause of injury is the displacement of U.S. production and export of American jobs, while the Escape Clause deals with injury from imports. We suggest, therefore, that the relationship of injury to a decline in U.S. production be fitted into the Escape Clause and other adjustment assistance provisions.

UNFAIR FOREIGN RESTRICTIONS

The Administration has requested that the Congress strengthen the government's ability to act, when unfair trade barriers in foreign countries are applied to manufactured goods from the U.S.

The AFL–CIO believes that such authority is contained in the 1962 Act. But it has not been operative for manufactured goods. Therefore, we urge the Congress to clarify its intent on this.

ADJUSTMENT ASSISTANCE

The AFL–CIO has consistently advocated the concept of adjustment assistance. The AFL–CIO hailed the adjustment assistance provision in the Trade Expansion Act of 1962. But due to a rigid interpretation of the Tariff Commission, this provision has been of little value. Between 1962 and 1969, there were only three findings of injury to workers; in 1970, there have been three more.

While the AFL–CIO continues to support the necessity of workable and effective adjustment assistance, we believe that it is merely a supplement to the needed, meaningful legislation on international trade and investment. Adjustment assistance is most decidely not a substitute for such legislation. Those workers, adversely affected by trade-problems, who can be retrained and helped to relocate, most certainly should have adjustment assistance. Those whose jobs have been lost through injury from imports should most certainly receive benefits. But the basic core of U.S. trade and investment policies should be aimed primarily at preventing such job losses, with adjustment assistance is a cushion for those few workers who are, nevertheless, adversely affected.

Therefore, the AFL–CIO supports the Administration's proposals for a workable adjustment assistance policy, which would provide for findings of injury by the President, with the Tariff Commission supplying factual information.

ITEM 807 AND SIMILAR PROVISIONS OF THE TARIFF SCHEDULES

The AFL–CIO urges immediate adoption of H.R. 14188, introduced by Chairman Wilbur Mills, to repeal Item 807 of the Tariff Schedules. We also urge repeal of Item 806.30, which is a similar provision of the Tariff Schedules.

In introducing H.R. 14188 to delete item 807 from the Tariff Schedules, Chairman Mills declared on October 3, 1969, that "item 807.00 is being exploited in a manner not originally anticipated by the Congress. If operations under it continue to expand and its use is adopted by other industries, the result will be loss of many jobs. While there may be meaningful economic operations being conducted under this provision, I am convinced that in many instances, it is being misused in some industries. Therefore, I feel the provision should be repealed until such time as the government can develop new language and assure that the operations under such a provision are economically viable and contribute to rather than damage the wellbeing of the U.S. labor force."

The AFL–CIO agrees with the Chairman of this Committee. Item 807 should be repealed. And the similar item in the Tariff Schedules, 806.30, should also be repealed.

Both items 806.30 and 807 provide reduced U.S. tariff duties on imports which contain U.S.-produced components and which have been assembled or processed abroad. The U.S. tariff duty is applied effectively to merely the value added in foreign assembly or processing—often, to merely the very low wages of workers in the foreign operations. Under 807, the advantage to the firm is twofold. There is a substantial advantage from the utilization of American equipment and know-how in foreign assembly operations, usually combined with wages and fringe benefits that are 50% to 90% less than in the U.S., and frequently accompanied by lower taxes in the foreign country. Item 807 adds to this a reduced-tariff subsidy.

Item 807 is one small loophole in the trade and investment structure for the advantage of U.S.-based multi-national companies. It operates as a lubricant for the growing export of U.S. capital, which is a major factor in America's balance of payments difficulties. It provides financial encouragement of foreign production, by U.S. firms of goods that are sold in the U.S. market. It is a factor in the deterioration of both the volume and composition of the U.S. trade balance.

Like many tax loopholes, 807 and similar provisions tend to grow. Reported imports under 807 shot up from $577 million in 1965 to $1.6 billion in 1969. Moreover, these figures may well be understated, since multi-national firms can juggle their prices in intracorporate transactions, for the benefit of the firm.

In addition, even the so-called U.S.-produced component, under 807, may not be what it appears. Such component may be an imported item, processed in the U.S. and assembled abroad, for shipment back to the U.S. under 807.

From 1967 to 1969, when reported 807 imports rose 77%, overall U.S. imports of all commodities increased 33.8%. Thus 807 imports are growing at double the rate of overall U.S. imports.

The expansion of 807 operations has been phenomenally rapid since 1967, in countries like Mexico, Taiwan, other countries in the Far East as well as the lowest-wage areas of this hemisphere. Reported imports, under 807, from Mexico alone soared from $3.1 million in 1965 and $19.2 million in 1967 to $145.2 million in 1969.

The operations of U.S. firms in foreign countries, with the utilization of this provision, have led to the export of one hunderd thousand or more American jobs between 1967 and 1969.

At home, the U.S. government is engaging in numerous efforts to train unemployed workers for low-skilled jobs—jobs that are now disappearing, due to recent and current economic developments. But 807 provides firms with a federal subsidy to export such assembly and production jobs for the advantage of some companies and to the detriment of the American labor force, including the most disadvantaged. Thus, while the Executive Branch has been examining the issue in these past few years, and while the National Alliance of Businessmen has been training, with federal subsidies, a small portion of the disadvantaged unemployed for jobs in U.S. plants, many companies, including NAB members have used the encouragement of 807 to export jobs to low-wage foreign subsidiaries.

The issue of 807 involved tariff savings to the companies of approximately $24 million in 1968, which may have increased to about $30 million in 1969. Of the $1.6 billion in imports under 807 in 1969, all but $339 million were charged the duties appropriate for the imported items. Payment of the appropriate duties on the excluded $339 million would surely not break the companies involved, but it would eliminate this specific type of federal inducement for the displacement of U.S. production and employment by runaway operations to countries whose wage levels are as low as 15 cents an hour. Moreover, it would end this Federal government inducement for the export of American jobs.

INTERNATIONAL FAIR LABOR STANDARDS

Labor organizations in various parts of the world, as well as the AFL–CIO in the U.S., have advocated the establishment of international fair labor standards. The development of such standards, through appropriate international channels, is essential to protect and advance living standards in the U.S. and in other nations, as well.

For years, there have been occasional discussions of this issue within the U.S. government and in international agencies. But there has been no follow-through and no action.

This issue has grown in importance, as multinational business has been expanding its search to produce goods in subsidiaries in low-wage countries for sale at high prices in the industrial nations, particularly, the U.S.—without regard for labor standards or consumers.

The report to the President, "Future United States Foreign Trade Policy," issued on January 14, 1969, states:

"The United States should bring for review and resolution under appropriate provisions of the GATT cases of exports to this country produced under what it believes to be clearly unfair labor standards. The United States should also seek, through the GATT and the ILO and possibly other international organizations, to develop international agreement upon a workable definition of fair labor standards and upon realistic means for their enforcement.".

The AFL–CIO urges the Congress to direct the Executive Branch to press for the establishment of international fair labor standards, as one essential step towards the development of a rational and socially responsible international trade and investment policy for the U.S. and all trading nations.

AMERICAN SELLING PRICE

The AFL–CIO is opposed to the Administration's proposed repeal of the American Selling Price.

The resolution on international trade, adopted by the AFL–CIO convention in October 1969, declared: "No tariff-cutting authority, beyond the authorization of the Trade Expansion Act of 1962 should be approved if there is any change of the methods of valuation of imports, such as the American Selling Price."

The Trade Expansion Act placed a 50% limit on tariff reductions. The Administration's proposed repeal of A.S.P., as negotiated, could result in considerably greater tariff cuts for affected products. Such action, therefore, would be unfair.

In conclusion, Mr. Chairman, we of the AFL–CIO are not isolationists and have no intention of becoming isolationists.

We support an orderly expansion of world trade. We oppose the promotion of private greed at public expense or the undercutting of United States wage and labor standards. We want expanded trade that expands employment at home and abroad and that improves living standards and working conditions, here and abroad.

No single action or one-shot panacea can meet the complex issues of world trade, foreign investments of United States companies and the operations of U.S.-based multi-national corporations.

A battery of realistic policies and measures must be adopted to meet the needs of the American people in world economic relations in the 1970s.

Practical, common-sense foreign trade and investment policies are needed that promote employment and achieve decent wages and working conditions—in the United States and in every nation with which we trade.

Mr. LONG. I pointed out, Mr. President, that this country is faced with an unfortunate situation where bad figures lead to bad conclusions. The books are deliberately kept in an erroneous fashion, in my judgment, to justify an erroneous policy that is benefiting somebody, but it is not benefiting this Government.

OVER ONE HUNDRED FOREIGN COUNTRIES USE C.I.F. IMPORT STATISTICS

MR. PRESIDENT: On September 17, I pointed out on the Senate floor just how misleading our trade statistics are. Subsequent to that discussion, I asked the Department of Commerce for a list of those countries which properly tabulate their import statistics to include the cost of insurance and freight. The Department has sent me a list of over 100 countries which compute their statistics on a c.i.f. basis. This indicates most clearly that it would be to our advantage to accept the most commonly used system of tabulating imports—the c.i.f. system.

I ask unanimous consent to include in the record at this point the information supplied to me by the Department of Commerce.

FOREIGN COUNTRIES WHICH REPORT IMPORTS ON A C.I.F. BASIS

Latin Amerian Republics

Argentina
Bolivia
Brazil
Chile
Colombia
Costa Rica
El Salvador
Guatemala
Haiti
Honduras
Mexico
Nicaragua
Peru
Uruguay

Other Western Hemisphere

Bahamas
Barbados
British Honduras
Guadeloupe
Guyana
Jamica
Leeward and Windward Islands
Martinique
Surinam
Trinidad and Tobago

Western Europe

Austria
Belgium and Luxembourg
Denmark
Finland
France
Germany, Federal Rep. of
Greece
Iceland
Ireland
Italy
Netherlands
Norway
Portugal
Spain
Sweden
Switzerland
Turkey
United Kingdom
Yugloslavia
Communist areas in Europe: Hungary

Near East

Cyprus
Ethiopia
Iran
Iraq
Israel
Jordan
Lebanon
Malta
Southern Yemen
Syria
United Arab Republic (Egypt)

Far East

Brunei
Burma
Cambodia
Ceylon
Hong Kong
India
Indonesia
Japan
Korea, Rep. of
Laos
Malaysia
Pakistan
Philippines
Sabah
Sarawak
Singapore
Taiwan
Thailand
Vietnam, Republic of

Oceania

New Caledonia
New Zealand

Africa

Afars and Issas (French)
Algeria
Angola
Cameroon
Central African Republic
Chad
Congo (Brazzaville)
Congo (Kinshasa)
Dahomey
Gabon
Gambia
Ghana
Ivory Coast
Kenya
Liberia
Libya
Malagasy
Mali
Mauritania
Mauritius
Morocco
Mozambique
Niger
Nigeria
Reunion
Sao Tome and Principe
Senegal
Sierra Leone
Somalia
Sudan
Tanzania
Togo
Tunisia
Uganda
Upper Volta
Zanzibar

Source: Official trade statistics of listed countries. United Nations.

Mr. McNeill. It is interesting further to note, sir, that this year American exports are running at a 14½-percent higher level than their level a year ago, which is a far higher percentage increase in American exports than, I believe, ever before in American history. Imports are running at the rate of 9 percent above the rate of last year.

Nor is the landscape bleak when it comes to the development of alternatives to the protectionist features of the trade amendment. In the case of shoes, for example, the President has already requested an escape clause investigation by the Tariff Commission and has offered an array of assistance to shoe firms and workers.

Senator Fulbright. What was that last point?

Mr. McNeill. The President announced a several-point program for the shoe industry some weeks ago. One of these points is a request of the Tariff Commission to conduct a study to see whether that industry was injured by imports.

Senator Fulbright. Haven't they done that already in view of all the agitation?

Mr. McNeill. They are doing it now.

Secondly, he provided that SBA and other Government agencies should immediately provide financial and employment assistance to firms and workers.

The President's Commission on World Trade is now studying the entire range of our trade and related policies for the 1970's. The hearings and deliberations of the subcommittee of the Joint Economic Committee dealing with the same issue can be counted on to produce valuable recommendations. Moreover, the impending visits to the United States by many heads of state, including the Prime Minister of Japan, would seem to offer possibilities for dealing with major outstanding trade policies in an atmosphere conducive to agreement.

In short, the enactment of protectionist legislation at this time would be tantamount to lowering the flag when help is on the way.

The members of the Emergency Committee for American Trade seek no special consideration from this committee with respect to trade policy. We are satisfied that America's free enterprise economy can compete successfully in world markets given fair treatment. We recognize that some practices followed by some nations today are not fair but we believe that continuing efforts to improve the international trading climate will benefit the United States. If protectionist legislation is enacted, retrogression will result and the United States will share in the blame for the ensuing damage to our own economy.

Should this happen, we can also foresee damage to the members of ECAT who employ approximately 3 million American workers and whose international transactions assist the U.S. balance of trade and payments in an extremely favorable manner.

Beyond this presentation on the substance of the amendment, I wish to urge your committee to consider trade legislation on its own merits. Linking it to legislation designed to help the needy in our Nation would be confusing to many Americans who have views on both subjects. It would also be sadly ironic to link a trade bill that would raise prices for many people to a bill that assists them financially.

Thank you, Mr. Chairman.

BALANCE OF TRADE ON A CIF BASIS

The CHAIRMAN. I would just like to put in the record the matter that I asked you about. Here is a chart that was prepared and made available to us in connection with the hearing on the nomination of Samuel Pierce to be General Counsel of the Department of Treasury. It appears on page 22 of the hearing record. It shows how our balance of trade comes through if you put your imports on a CIF basis the way the International Monetary Fund and virtually all other nations do it, and it shows that we do not have any $3 billion plus.

Last year we had a $4.4 billion minus, and we are running a deficit right now if you put it on that basis. You had a $4.7 billion minus in 1968 and a $1.1 billion minus in the previous year.

If you put our imports on an FOB basis, and then consider all the giveaways and pretend you sold that rather than gave it away, you show up with a different result. In some of those years you show up with a plus when actually you have got a great big minus staring you in the face by the time you take it into account. I would like to ask that that chart appear in the record.

(The chart referred to follows:)

U.S. TRADE BALANCE, 1960-69

[In billions of dollars]

	Total exports, f.o.b. (A)	Total imports, f.o.b. (B)	Trade balance (C=A−B)	AID and Public Law 480, Government-financed exports (D)	Total exports less AID and Public Law 480, financed exports (E=A−D)	Total imports, c.i.f.[1] (F)	Merchandise trade balance (G=E−F)
1969	37.3	36.1	+1.2	[2]2.0	[2]35.3	39.7	−4.4
1968	34.1	33.2	+.9	2.2	31.8	36.5	−4.7
1967	31.0	26.9	+4.1	2.5	28.5	29.6	−1.1
1966	29.5	25.6	+3.9	2.5	27.0	28.2	−1.2
1965	26.8	21.4	+5.4	2.5	24.3	23.5	+.8
1964	25.8	18.7	+7.1	2.7	23.1	20.6	+2.5
1963	22.5	17.2	+5.3	2.6	19.9	18.9	+1.0
1962	21.0	16.5	+4.5	2.3	18.7	18.2	+.5
1961	20.2	14.8	+5.4	1.9	18.3	16.3	+2.0
1960	19.6	15.1	+4.5	1.7	17.9	16.6	+1.3

[1] CIF imports are assumed to be 10 percent higher in value than f.o.b. imports in accordance with Tariff Commission study.
[2] Estimated by Department of Commerce.

Source: U.S. Department of Commerce.

STATUS OF U.S. BALANCE OF PAYMENTS

The CHAIRMAN. Here is another chart which answers the $64 question in connection—what is the status of our balance of payments? I would ask that this chart which shows the U.S. balance of payments from 1960–69 appear in the record at this point.

(The chart referred to follows:)

TABLE 1.—U.S. BALANCE OF PAYMENTS, 1960-69

[In millions of dollars]

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
Merchandise trade [1]	4,906	5,588	4,561	5,241	6,831	4,951	3,926	3,860	624	638
Exports	19,650	20,107	20,779	22,252	25,478	26,447	29,389	30,681	33,588	36,473
Imports	−14,744	−14,519	−16,218	−17,011	−18,647	−21,496	−25,463	−26,821	−32,964	−35,835
Travel (including fares)	−1,238	−1,235	−1,444	−1,596	−1,499	−1,613	−1,627	−2,144	−1,872	−2,092
Receipts	1,025	1,057	1,070	1,133	1,357	1,545	1,785	1,881	2,035	2,363
Payments	−2,263	−2,292	−2,514	−2,729	−2,856	−3,158	−3,412	−4,025	−3,907	−4,445
Military	−2,752	−2,596	−2,449	−2,304	−2,133	−2,122	−2,935	−3,138	−3,140	−3,355
Receipts	335	402	656	657	747	830	829	1,240	1,395	1,515
Payments	−3,087	−2,998	−3,105	−2,961	−2,880	−2,952	−3,764	−4,378	−4,535	−4,850
Dividends and interest	2,689	3,398	3,889	3,984	4,686	5,088	5,140	5,646	6,000	5,744
Receipts	3,752	4,405	4,999	5,309	6,142	6,817	7,282	8,008	8,933	10,207
Payments	−1,063	−1,007	−1,110	−1,325	−1,456	−1,729	−2,142	−2,362	−2,933	−4,463
Other services and transfers, including Government grants	−1,730	−2,020	−2,023	−2,058	−2,003	−1,941	−2,011	−1,981	−1,947	−1,841
Current account total [2]	1,873	3,136	2,536	3,269	5,883	4,364	2,492	2,243	−336	−885
Direct investment	−1,674	−1,598	−1,654	−1,976	−2,328	−3,468	−3,661	−3,137	−3,209	−3,070
Bank claims	−1,148	−1,261	−450	−1,536	−2,465	93	253	−475	253	−541
Nonbank claims	−394	−558	−354	158	−1,108	340	−443	−760	−1,202	−269
U.S. transactions in foreign securities	−662	−762	−969	−1,105	−667	−759	−481	−1,266	−1,254	−1,494
U.S Government capital, net excluding unscheduled repayments)	−1,158	−1,621	−1,774	−1,987	−1,799	−1,819	−1,963	−2,427	2,537	−2,097
Foreign capital	419	1,398	1,707	1,016	812	492	2,961	3,366	8,970	4,060
Errors and omissions	−1,156	−1,103	−1,246	−509	−1,118	−576	−514	−1,088	−514	−2,924
Balance on liquidity basis	−3,901	−2,371	−2,204	−2,670	−2,800	−1,335	−1,357	−3,544	171	−7,221
Balance on official reserve transactions basis	−3,403	−1,347	−2,702	−2,011	−1,564	−1,289	266	−3,418	1,641	2,708

[1] Balance-of-payments basis.
[2] Including unilateral transfers.

Source: Treasury Department.

Senator FULBRIGHT. Payments or trade?

The CHAIRMAN. Balance of payments. That is the answer to the $64 question which is, are we as a nation making money or losing money. The liquidity deficit is the usual way of looking at the net result but it also has an official basis as well. We have been averaging about $2.5 billion minus since 1960 on the liquidity basis, and $1.1 billion on the official basis. We have been averaging about $2.5 billion a year in the minus for the last 10 years on balance of payments.

How long do you think we can keep that up?

Mr. MCNEILL. Mr. Chairman, I appeared before this committee on behalf of the Johnson administration some years ago to discuss with you and your associates this whole question of import and export valuation, and we presented a statement at that time showing that if we are going to add insurance and freight as a measurement of our merchandise imports, we would also have to add the same factor to our exports in order to weigh comparable things, and if you do that you come out with the same figures.

The CHAIRMAN. I am not talking about valuation but just talking about the statistics correct, that is all.

Mr. MCNEILL. The Bureau of the Census, sir, in its quarterly publication on foreign trade does list in the beginning an adjustment factor for CIF which now is about 6 percent, so you could subtract, I suppose if you wanted, 6 percent, but you would also, it seems to me, have to add 6 percent to your exports in order to have the two things on a comparable basis.

The CHAIRMAN. Well, it does not make much difference whether you are adding it on imports or exports as long as it is the other fellow's ship.

Now, over 90 percent of this stuff on a tonnage basis is going in the other person's ships.

Mr. MCNEILL. Well, sir, the insurance and the freight transactions internationally are reported fully in our balance-of-payments statistics, as are our tourist account figures.

The $3 billion figure that I was referring to, the trade figure, has to do with merchandise trade only.

The CHAIRMAN. Well, the foreign merchandise cannot compete over here unless it does bear the cost of insurance and freight.

Do you have this chart, Mr. Reporter, that I ask that you place in the record here? It shows what the final answer to it is on a liquidity basis on balance of payments, and this is where we really, by the time you put in everything, you put in everything that belongs in it, and take out everything that belongs out of it, you show up with a great big minus figure averaging about $3 billion a year. You are aware of that?

Mr. MCNEILL. I am also aware, sir, that the balance of payments has been out of whack to the tune of billions of dollars. I am also aware, if you look at the balance of payments in the public and private sector, that the private sector contributed on a net basis billions of dollars both on trade and investment account to the balance. It is the expenditures we have abroad for national security and economic foreign aid reasons that bring the balance, the total balance, into net disadvantage.

But the private sector, I maintain, sir, is that sector of the balance of payments that more than pays its own way.

The CHAIRMAN. Yes, but when you add everything up you get a great big minus. You can study and arrive at your conclusion as to where we stand on merchandise trade balance. The figures that we have, and this is the best calculation we have made, we make a 10-percent calculation above FOB, which is in accordance with the Tariff Commission's study, and that shows up a deficit in accordance with the figures that I put in the record.

It is also in accordance with the way the International Monetary Fund estimates it. Senator Bennett.

Senator BENNETT. No questions.

Senator FULBRIGHT. Mr. McNeill, I have studied those figures, too, and I quite agree with you that on trade we have had—and the previous witnesses said when we asked this question—I think the feeling has been that we have a favorable balance on trade.

The trouble is that those who support our foreign policy are unwilling to face the consequences of it in giving away vast sums of military equipment and other economic goods and spending it on our activities such as Vietnam and Korea, and so on, and all around the world. This is what, since that is not very favorable to the argument, they dismiss.

But the fact is that, as I said, and I agree with exactly what you said.

ESCAPE CLAUSE PROVISION

I do not understand why the Tariff Commission has not proceeded under the escape clause provision to give relief to the textile and footwear industries. What is the explanation of that, because this discussion of this bill, the probabilities of a bill, have been underway for a long time.

Why have they not moved in that area; what is the excuse for it not moving? It was set up for that purpose, wasn't it?

Mr. MCNEILL. Yes, Senator Fulbright, I certainly am not the one who can talk for the Commission, but I can report to you, however, a year ago the Tariff Commission did conduct a factual investigation and made a report to the Congress and to the President.

Senator FULBRIGHT. On textiles?

Mr. MCNEILL. On shoes.

Senator FULBRIGHT. On shoes.

Mr. MCNEILL. And this year the President, in effect, asked the Tariff Commission to update the facts that it had acquired a year ago under its investigation so that the Tariff Commission, I think, for the past 2 or 3 years on an annual basis has been ascertaining the facts.

Senator FULBRIGHT. Have they been given relief?

Mr. MCNEILL. They have not yet come up with a recommendation to the President. It will be in January.

Senator FULBRIGHT. Why can't the President have this recommendation expedited? It is ridiculous that they do not get action in view of the urgency here asked to pass a bill in a couple of days.

What is wrong with the Tariff Commission? They have no excuse, having made this study, why can't they act more rapidly if the President asks them to?

Mr. MCNEILL. I cannot speak for the Tariff Commission.

Senator FULBRIGHT. You must have some ideas. You have been in the business a long time.

Mr. McNEILL. Yes, sir; I have.

Senator FULBRIGHT. What are your ideas, tell us them.

Mr. McNEILL. The Tariff Commission?

Senator FULBRIGHT. What is wrong with it?

Mr. McNEILL. There is nothing wrong with it. Their workload is terrible. When I worked in the Budget Bureau I worked as an examiner for the Tariff Commission, and I sympathize with their position. They did not have enough staff to take care of their business and business of the United States. That is their problem.

Senator FULBRIGHT. For goodness sake, most of us thought this was set up for the purpose of giving relief where it was needed in just such investigations as tariffs on shoes which should be made. They ought to do that through an orderly procedure with a flexible ability to give relief. That is the theory of the bill.

I do not understand why the President has not encouraged them to take action in this administration, and why wait until January is what I would ask. Why can't they do it now, if they have already been making, as you have said, a more or less continuous study of this last year? It would be a simple matter to update it.

But I am very worried about the effect of sudden action here without knowing what the consequences are.

Do I gather from what you said that the Common Market, which is now becoming more and more consolidated and acting in a more effective way, has estimated that $1.6 billion of their exports will be affected by this bill; is that what you said?

Mr. McNEILL. No, sir. I said that under the escape clause alone, the $1.6 billion figure would apply. If you add to that the textiles and shoes and the manmade fibers, then the figure would be well over $2 billion of their trade that would be affected.

The $1.6 billion figure applies only to the products that they export to the United States that would meet the arithmetic test of the escape clause as in the Ways and Means Committee bill.

They made it very clear, Senator, they were going to defend their economic interests.

Senator FULBRIGHT. Well, they made that clear before. I mean, we had that experience, as I mentioned before, with poultry. They started doing that a good while ago, and I did not particularly like it, and I think we ought to take comparable action.

What worries me is the urgency, of the action on trade, and linking it with the social security bill.

As I said before, I am not at all sure I would not support a bill that I thought I understood and I was fully aware of its consequences.

As I understand it, your people, made up primarily of business concerns in this country, and many of them very sizable business people, are opposed to this procedure.

Do you take a position, a final position, on the bill itself or do you say you supported the administration bill but were opposed to the House bill?

Mr. McNEILL. We support the administration bill and are strongly opposed to the legislation approved by the Ways and Means Committee; that is, we are opposed to the trade amendments before this committee.

Senator FULBRIGHT. The one that is being proposed here?

Mr. McNEILL. Yes.

Senator FULBRIGHT. Could you say in just a brief way what is the major reason why you take this position; in other words, the things that affect your judgment?

Mr. McNEILL. The group that I represent would like to see as a basic premise an expanding world economy.

Taking that as a basic premise, we find this bill very objectionable because it is designed to assure just the opposite effect, that is, a reduction in economic activity in this country and abroad, and therefore it would lead to a contraction of economic activity, and this is what we are opposed to. In a nutshell, that is our reason.

Senator FULBRIGHT. You do not subscribe to the idea that we might develop a system, sort of a system of barter, like the Russians have that we might profit under that?

Mr. McNEILL. No, sir.

Senator FULBRIGHT. Why not? They have done pretty well, haven't they?

Mr. McNEILL. I think they may have done well in terms of the management of their own internal economy in the way they have done it, but look at the cost in human terms.

Senator FULBRIGHT. You are still a private enterprise man?

Mr. McNEILL. Yes, sir.

Senator FULBRIGHT. OK. Thank you very much.

The CHAIRMAN. Thank you very much.

We will meet again in this room at 2:30.

(An attachment to Mr. McNeill's statement follows. Hearing continues on page 113).

FOREWORD

On May 18, 1970, three members of the Emergency Committee for American Trade were lead-off witnesses in public hearings on foreign trade and tariffs before the Ways and Means Committee of the House of Representatives.

The statements reprinted here were presented by:

Donald M. Kendall, President and Chief, Executive Officer, PepsiCo, Inc., and Chairman of ECAT.

Ellison L. Hazard, Chairman of the Board, and President, Continental Can Company, Inc.

Lynn Townsend, Chairman, Chrysler Corporation.

Patrick E. Haggerty, Chairman, Texas Instruments Incorporated (Mr. Haggerty was unable to appear, and submitted a statement for the record.)

In addition, the formal statement submitted for the Committee's record is included.

STATEMENT OF DONALD M. KENDALL

Chairman Mills and members of the Committee, my colleagues and I are pleased to be testifying today on behalf of the Emergency Committee for American Trade. I am Donald M. Kendall, Chairman of our Committee and President of PepsiCo, Inc. With me are Ellison L. Hazard, Chairman of the Board and President, Continental Can Company, Inc.; and Lynn Townsend, Chairman, Chrysler Corporation. Patrick E. Haggerty, Chairman, Texas Instruments Incorporated, had planned to join us, but is unable to appear at this time. We will submit a statement on his behalf for the record.

In keeping with your time schedule, we will speak briefly, and submit material for your further consideration.

ECAT was formed in 1967 to oppose the surge of protectionism which you, Mr. Chairman, and your Committee have dealt with so constructively. Our members are gratified that U.S. trade policy has not been crippled by a harsh grid of quota restrictions that others have asked you to impose.

For our part, we are asking only for a fair chance to increase out exports and protect our investments. We believe the President's bill will do this. We believe quotas will not.

ECAT's members are mostly large companies and we have operations in many countries and in all American states. Many of our companies are larger today than when we last appeared here. And I may say that many of the companies and industries that were clamoring here for protection two years ago are also larger today. We are delighted by this latter fact.

We are particularly pleased to see the improvement that has taken place in the steel industry. In 1968, the industry's association asked your Committee for a complicated system of mandatory quotas on grounds of national security needs. It now appears that conditions have improved and the president of a major steel company was quoted earlier this month in the press as saying: "In retrospect, the 60's were rough on the steel industry. The combination of factors that combined to produce a climate of unfair world trade that was characteristic of much of the 1960's was really a blessing in disguise for the American steel industry. We upgraded our facilities, eliminated unprofitable products, invested in new materials and new businesses, and built a stronger base on which to grow and improve." We hope this proves to be the case and that it helps demonstrate the healthy effect that international competition has on the American economy. ECAT believes that any drastic reduction in such competition could burden America with lethargic, non-competitive industries sheltered behind quota walls. The members of ECAT do not want to see a single job lost in America or to see even the smallest business suffer.

Our welfare is also dependent on the good health of thousands of smaller concerns, on suppliers, dealers, retailers, processors and others. In this connection, I believe the companies in our country with fewer than 50 employees also have a great stake in freer trade. ECAT members can easily see the importance of the billions of dollars we contribute to American exports and balance of payments. The value of trade may be less obvious to many smaller companies, but it is there and I believe they have a great potential for improving our export performance.

We realize your Committee has been highly and rightly concerned about our trade performance. The huge surpluses of the 'sixties' have indeed slipped away. ECAT, however, does not believe protectionism would meet this problem. Market forces are already helping somewhat and I understand the current trade surplus is running at a $2.4 billion annual rate, almost twice that of last year.

ECAT believes that the U.S. competitive capacity is sound and that our trade performance will improve with a return to normal economic growth rates and control of inflation.

Our exports, we note, have continued to grow at the historic rate of seven percent. We believe this is the side of the trade equation where our efforts should be concentrated. In terms of exports as a percentage of GNP, the U.S. could be called an underdeveloped country.

Let's give our exporters and potential exporters more practical help, better credit, tax incentives and the support of our government officials abroad.

Let's also insist that our negotiators use the power they have and the power the President's bill will give them to open foreign markets to American products on the same basis that our markets are open.

The huge American market is so attractive, even so essential, to other nations that we should have great leverage in such negotiations.

The members of ECAT are impressed with how well overseas businessmen appreciate this fact. We have met with like-minded business leaders in Japan and Europe to encourage them to oppose restrictions on American trade and investment. When the facts are presented to them, they have been very helpful on issues like soybeans in Europe and quotas and investment barriers in Japan.

The U.S., of course, has its own restrictions. One-sixth of our trade is already covered by quotas and it is impossible for ECAT members to conduct our business around the world without being daily reminded of fear abroad that these restrictions will grow.

What we believe is needed is the negotiation of a series of agreements adding up to a "fair competition" policy that would establish reasonably equal competitive conditions for all traders on matters like subsidies and bidding on government procurement. This could also lead to common positions on the safety of products traded internationally and even safeguards against undue damage to the environment.

ECAT can only predict that the forces working in favor of our trade balance will prevail and that vigorous efforts to obtain fairer treatment of American goods will succeed. We can, however, be categorical in stating that legislated quotas and other restrictions are self-defeating in terms of our trade balance.

The record shows that restrictions breed restrictions, that nations can and do retaliate and the results cancel each other out on a downhill race. Protectionists will tell you this won't happen—ignoring recent American retaliation on chickens and Belgian retaliation on carpets. We are also certain that the cost of quotas, domestically, is higher prices, less ability to compete abroad and less incentive to compete at home.

Various proposals for "orderly marketing agreements" have a rhetorical appeal and a facade of fairness but they are no less objectionable. They are such bureaucratic horrors that the only definite thing that can be said about how they might work is that competition would be cut off without any proof of injury.

For these reasons, Mr. Chairman, we cannot concur with the view that textile quotas should be applied across-the-board and that the time-tested and internationally accepted principle of proving injury before relief is granted should be abandoned. These principles are hard won in this world. They include, for example, the principle that expropriation should not take place without prompt and adequate compensation. This is really a "law and order" issue and the United States has the most to lose if the few rules that have been established are vitiated.

In short, we are sympathetic to the textile and other industries and recommend relief when the need for it is demonstrated. In such cases, we would welcome voluntary agreements with supplying countries.

Our formal statement details our support of the President's trade bill. I would like to note that while we favor making it easier for domestic industries to obtain temporary relief through the escape clause, we recommend that the Congress show that it expects the test for such relief to be meaningful and exacting.

ECAT has given considerable attention to Section 252 of the Trade Expansion Act of 1962. We support the extension of the President's power to retaliate when any American product—not just farm products—is discriminated against. We think the problem of subsidies of exports to third countries would be better dealt with by an international agreement than by extending the President's retaliatory authority. But, we strongly recommend extension of retaliatory power to cover discrimination against American investments. Such discrimination effectively cuts off exports of plant equipment and other goods. We also recommend that any action under this authority be taken in conformity with international rules.

In conclusion, ECAT believes our trade policy has been a good one and would like the Committee to improve and protect it.

I would like to thank you and ask Mr. Hazard to continue.

Statement of Ellison L. Hazard

Mr. Chairman and members of the Ways and Means Committee: I am Ellison L. Hazard, Chairman of the Board and President of the Continental Can Company, Inc. I am pleased to have this opportunity to appear with my associates from the Emergency Committee for American Trade to express my serious concern about the direction of our nation's trade policy and its implications for my industry.

Packaging, Mr. Chairman, is the fourth largest industry in the United States. Unlike some industries, packaging is not susceptible to easy categorization. The industry's operations are diverse and widespread. It uses a very wide range of materials, most of them produced in the United States. The industry's domestic sales and production are far more significant than its international activities. Yet, I believe the industry has a critical stake in the subject of your hearings and I wish to strongly recommend that the Committee renew our nation's policy of international trade expansion under conditions of reciprocity. I believe this can best be accomplished by enactment of President Nixon's trade proposals.

Let me present a few salient facts about the interests of my company and the industry of which it is a part, and the relationship of these interests to freer trade. Many packaging companies including Continental Can have operations in many countries. As you know, the United States is the world's leader in the field of packaging. Our methods and processes and technology are needed and emulated in almost every nation. As an illustration, my company has over 50 licensing agreements with packaging companies throughout the free world. In addition we own and operate 61 plants abroad. Their earnings make a substantial contribution to the hard-pressed blaanee of payments of the United States.

These overseas plants serve overseas markets. There is very little international exchange of finished products in the industry, because most of our finished products are normally quite bulky and do not lend themselves to shipment over great distances. Thus, if we did not operate abroad, others would take our place to the detriment of American economic interests.

What is traded internationally are the raw and semifinished materials on which this industry is dependent. The balance of this trade is very much in the favor of the United States.

Paper and paper products are an important part of our company's activities. As a matter of information, our company ranks third in the production of paperboard in the United States.

These facts all have an important bearing on the welfare of the 48,000 Americans my company employs in its plants in 33 states and on the welfare of a company with annual sales approaching $2 billion, 72 percent of which are generated in the United States.

As I understand the legislation before you, the basic choice is between the proposals of the President which would continue United States trade policy on the same course it has followed for many years and a variety of bills that would subject trade to regulation by quotas. I realize that some of these quota bills are restricted to one or two commodities and some are more general in nature.

Since my company is not dependent to any extent on imports, it may appear that we could afford to be indifferent to the outcome of your considerations. To the contrary, however, there are a number of reasons that compel me to support the policies that your Committee has promulgated in the past and are now proposed by the President.

Our first consideration involves the international climate in which we must operate. The notion that national economies are neatly divided into domestic and international business is not borne out in our experience. When trade is subject to restrictions and the hostile policies that restrictions engender, it becomes more difficult to operate efficiently in any country. Our plants overseas are dependent to a large extent on cooperative relations among the countries concerned. We would not wish them to be caught in the middle of a trade war.

Additionally, we regard international competition in raw materials as an essential restraint on rising prices which, as you know, are a problem everywhere in the world. Without the Spur of such competition, our industry and the people we serve would find suppliers less impelled toward policies of maximum efficiency, modernization and competitive pricing.

Although ECAT does not wish to appear doctrinaire on any trade matter, it is difficult for us to be anything else on the subject of import quotas. I believe you are familiar with why we do not regard quotas as a practical solution to trade problems. In addition to the factor of retaliation, quotas should be anathema to any businessman. They place in the hands of government officials the power to favor one firm over another, one region over another, one set of labor practices over another or what have you. No matter how skilled their administration, they are the hallmark of a "planned" as against a "market" economy.

In conclusion, I would like to say that we are opposed to quotas not only as members of ECAT but simply as businessmen.

Statement of Lynn Townsend

Mr. Chairman and members of the Ways and Means Committee, I am Lynn Townsend, Chairman of the Chrysler Corporation, and I am delighted to be here today with some of my fellow members of the Emergency Committee for American Trade to support continuance of the historical reciprocal trade policies of the United States and to recommend approval of the President's trade proposals.

I would like to preface my remarks by quoting from a current statement of policy of the Automobile Manufacturers Association. The quote is as follows: "Protectionism by any trading nation undermines the principles of reciprocity and endangers the long-term growth of any economy which retreats behind its arguments."

I strongly believe in the truth of this statement. A retreat into any major form of economic isolationism can only work against the best economic and political interests of this or any other country undertaking such an unwise step. If there is one successful economic policy that this country has had experience with, it is the policy of reciprocal trade agreements legislated initially by the Congress in 1934. I hate to see success tampered with.

The automobile industry has long supported and promoted efforts to expand international trade. We firmly believe that competition is desirable whether that competition be within our own market or foreign markets. As is well known to members of this committee, American automobile companies operate on a truly international scale with facilities in every country of the free world. In some countries we have manufacturing facilities while in others we have either facilities for assembly or for distribution.

I am sure that I speak not only for myself but for my associates in the automobile industry when I say that we believe that any impediment imposed upon us in competing for world markets would be undesirable not only for ourselves but also for the economic interests of the United States. In the period from 1947–1969 for example, exports of automotive products totaled $38.3 billion and imports of automotive products $19.6 billion. This has afforded the United States an automotive trade surplus during that period of $18.7 billion, which I think is a very major contribution to the balance of payments of this country. While it is true that imports of foreign cars have increased greatly in recent years to the disadvantage of the automotive balance of trade, the domestic automobile industry is facing that competition head-on through the introduction of smaller domestic cars to the marketplace. We firmly believe this to be the proper response to import competition. We believe equally firmly that pleas for import protection through legislated quotas would be the wrong response for a variety of reasons. Among them is our recognition that such quotas would trigger counteractions abroad, which could lead to a major trade war from which there could emerge no winners. Among the principal losers would be the consumer, whose range of product choice would be narrowed.

Policies seeking to expand trade and investment, on the other hand, benefit private enterprise and the national economy. Such policies provide the consumer wider product selection and stimulate greater price competition, from which he also benefits. Restrictive import legislation, on the other hand, would lead to higher costs and prices for raw materials both through a reduction in supply and in competition, thus adding fuel to already strong inflationary pressures.

In supporting an open-looking trade policy, I in no way want to gloss over or ignore the many serious problems confronting this Committee in its present examination of present and proposed trade policies. The U.S. automobile industry faces many commercial risks, and has a variety of serious problems at home and abroad that require the serious attention of yourselves and the agencies of the Executive Branch. We want a fair shake in foreign markets. We would like to see our government negotiate for us treatment in foreign markets similar to that accorded foreign companies in the U.S. market. In short, we would like full reciprocity, and consistent with that we believe that trade negotiations should be aimed at the reduction and ultimate removal on non-tariff barriers.

The American automobile industry is seriously affected by foreign non-tariff barriers. Among them is a device used by many foreign governments requiring specified percentages of "domestic content" in autos sold in their countries. This requirement forces U.S. auto manufacturers into often high cost assembly or manufacturing operations in the countries concerned to the detriment of consumers in those countries, who pay the resultant higher prices.

Another serious barrier abroad is internal taxes that discriminate against American cars through forcing payment of proportionally higher taxes than on the smaller cars produced in the home market. This fiscal discouragement to foreign purchase of U.S. cars is a serious problem.

Among the countries utilizing such discriminatory taxes are Japan and some members of the European Common Market. As members of this Committee are aware, the U.S. negotiators in the Kennedy Round of tariff negotiations negotiated a package of concessions concerning the American Selling Price (ASP). As part of that package, Congress is being asked by the President to eliminate that system of import valuation. We in ECAT and we in the American auto industry support the President's request for two basic reasons. First, unless it is eliminated, it is our belief that our trading partners will attach little credibility to stated U.S. intentions that it wants to negotiate on non-tariff barriers. Foreign businessmen often remind us that unless the U.S. is able to implement the negotiated ASP package, then what confidence can they or their governments have in the U.S.

The second reason for supporting the President's ASP request is that as part of the negotiated ASP package, Belgium, France and Italy have agreed, on elimination of ASP, to modify their internal automobile tax system to eliminate the discrimination against U.S. cars. This would benefit U.S. exports of automotive products.

Mr. Chairman and members of the Committee, I thank you for your generous attention.

STATEMENT OF PATRICK E. HAGGERTY

Mr. Chairman, I am Patrick E. Haggerty, Chairman of Texas Instruments, and a founding member of the Emergency Committee for American Trade.

While I am here as a member of the Emergency Committee for American Trade, I think it worthy to note that the electronics industry, of which my company is a part, has an enormous stake in international trade. It is an industry that last year achiefed approximately $25 billion in domestic sales; that employed over 1 million persons in the United States; that had $2.8 billion in export sales and that saw imports of $1.8 billion. Thus, the electronics industry's 1969 stake in U.S. international trade was $2.6 billion, and we contributed a net foreign exchange earning of $1 billion to the U.S. balance of trade.

There is great competition in the United States electronic products markets. Competition is not only among domestic companies but among domestic concerns and overseas manufacturers. Competition from the latter is particularly keen in product areas with a relatively stable technology, such as radios, television sets and home tape recorders. Because of the labor intensiveness of these products, many U.S. firms have established manufacturing facilities abroad or entered into business ventures with overseas partners whereby manufacture abroad is coupled with manufacture in the United States in order to keep total costs at competitive levels.

In those product area characterized by rapidly changing technology such as semiconductors, the production pattern is domestic manufacture with some assembly of American components overseas. Vital to this assembly is item 807.00 of the Tariff Schedules of the United States. I would like to address myself to this provision, since H.R. 14188 is one of the several issues before this Committee.

The tariff item at issue allowed the dynamic semiconductor market to expand since 1962 at an average annual rate of 22 percent. This growth has been accompanied by sharp and sustained declines in unit prices, facilitating the economic use of semiconductors in established consumer products such as radios and television sets that formerly used vacuum tubes. Low unit prices and volume production have stimulated the development, in turn, of other new industries such as the computer industry.

By making it possible for U.S. electronics manufacturers to transfer labor-intensive assembly operations abroad and to keep and expand skilled operations in this country, item 807.00 has contributed importantly to the growth of the domestic work force and to higher paying jobs in the United States.

Were this tariff provision repealed, there is no doubt in my mind that my industry would be seriously damaged to the detriment of our work force, to the American consumer, and to the economy in general. Here is what I believe would happen:

1. First, the imposition of import duties on American-made components would immediately drive up costs, which, in most cases, could not be absorbed by profits. Prices would be marked-up, which would cut sales, both at home and abroad. Then production and employment would fall. Consumers, of course, would have to pay more for the end-products.
2. With costs and prices up, our industry's competitiveness would weaken and foreign producers would enjoy a growing market share. As our domestic and overseas markets decline, our industry's contribution to the U.S. balance of payments would shrink.
3. To regain our lost markets, we would have to find ways of cutting costs. In our domestic operations, this could be accomplished, in some cases, by expanded use of labor-saving machinery. In other cases, we might expand our international activities to manufacture or purchase products abroad that are now made in the United States. Or, there could be some combination of these alternatives. Whichever way, employment undoubtedly would be hurt.
4. As more and more American production is sourced abroad, imports would rise and exports would fall, because overseas sales would be supplied by the production of our subsidiaries abroad. This, of course, would hurt the U.S. trade balance.

Were time available I would address myself to a number of other issues involved in repeal of this tariff provision. How, for example, can the United States reconcile repeal with its long-standing and justified policy of promoting economic progress in the developing countries of the world? Where is the equity in putting a tariff on an American-made product if assembled in Taiwan but exempting it if assembled in Tulsa?

There are many complicated questions that need examination and answers before action is taken. I welcome the Tariff Commission's painstaking investigation into this matter. I believe it will shed needed light on this issue. I therefore, urge this Committee to withhold action to retain or repeal item 807.00 until the Tariff Commission reports its findings.

STATEMENT SUBMITTED TO THE COMMITTEE ON WAYS AND MEANS

Chairman Mills and members of the Committee, my colleagues and I are pleased to be testifying today on behalf of the Emergency Committee for American Trade. I am Donald M. Kendall, Chairman of our Committee and President of PepsiCo, Inc. With me are Ellison L. Hazard, Chairman of the Board and President, Continental Can Company, Inc.; and Lynn Townsend, Chairman, Chrysler Corporation. Patrick E. Haggerty, Chairman, Texas Instruments Incorporated, had planned to join us but is unable to appear at this time. We will submit a statement on his behalf for the record.

This is the second time in the brief history of ECAT that a group of our members has appeared before your Committee. Two years ago under the leadership of Arthur K. Watson, now American Ambassador to France, an ECAT team testified. I have read the transcript of that appearance and can report that ECAT's views have not changed. Time has only strengthened them. I subscribe fully to what was said at the end of our statement in 1968:

We are not here to ask for special favors. We do not want protection for our businesses. We do not want subsidies for our exports. All we need is a sound domestic economy and access to foreign markets."

But time has changed the conditions that influence American trade policy. We are appearing today to support the President's trade proposals and to recommend strengthening amendments, but first, I would like to comment on some of these changes.

Since we were last here, the danger of a wrecking operation on the world trade system has increased both at home and abroad. The members of ECAT have consequently decided to hold fast, to persevere in what I assure you is a thankless job of helping to defend that system and trying to make it work better.

ECAT was formed in the fall of 1967 in face of the surge of protectionism which you, Mr. Chairman, and your Committee have dealt with so constructively. We grew in a few months from a handful of companies to slightly more than 50, the number we have decided to maintain. ECAT members are practical, working businessmen. We have not become free trade theorists but, rather, have concentrated on specific issues and have supported the reciprocal trade program because we know it has worked. Our members have been personally involved in ECAT initiatives. We have taken the ECAT case to the Congress, to the prior and present Administration and to the public and, when necessary, we have taken it abroad.

It is a fact, Mr. Chairman, that we are mostly large companies. Many of our companies are larger today then when we last appeared here. And I may say that many of the companies and industries that were clamoring here for protection two years ago are also larger today. We are delighted by this latter fact.

We are particularly pleased to see the improvement that has taken place in the steel industry. In 1968, the industry's association asked your Committee for a complicated system of mandatory quotas on grounds of national security needs. It now appears that conditions have improved and the president of a major steel company was quoted earlier this month in the press as saying: "In retrospect, the '60's were rough on the steel industry. The combination of factors that combined to produce a climate of unfair world trade that was characteristic of much of the 1960's was really a blessing in disguise for the American steel industry. We upgraded our facilities, eliminated unprofitable products, invested in new materials and new businesses, and built a stronger base on which to grow and improve." We hope this proves to be the case and that it helps demonstrate the healthy effect that international competition has on the American economy. ECAT believes that any drastic reduction in such competition could burden America with lethargic, non-competitive industries sheltered behind quota walls. The members of ECAT do not want to see a single job lost in America or to see even the smallest business suffer. Although ECAT comprises large companies with operations in every American state, our fortunes depend on the good health of thousands of small concerns, on suppliers, dealers, retailers, processors and many others. I, personally, believe that the backbone of American business can be found in the more than 3,300,000 companies in our country with fewer than 50 employees. I also feel that these small companies have a greater stake in freer trade than they realize. ECAT members can easily reckon the billions of dollars that we contribute to America's exports and to its balance of payments. Small companies cannot measure their collective contribution so readily but they are no less essential to our standing in world markets and a great potential for improving our performance resides with them.

Your Committee has been rightly concerned with America's balance of trade—a very significant area in which conditions have changed since ECAT was last before you. In our view, the situation is not as bleak or as prohibitive to freer trade policies as those seeking protection would have us believe. The history of the reciprocal trade program holds volumes of protectionist pronouncements that America had priced itself out of world markets and that we had better give up the game. The record shows that these judgments have been consistently wrong.

Our trade balance has indeed declined. We are not likely in the near future to see the six and seven billion dollar annual surpluses of a few years ago. However, I do understand that the current surplus is running at a $2.4 billion annual rate in 1970, approximately a three-fold improvement over 1968 and nearly a two-fold improvement over 1969 when the recorded surplus was $1.3 billion. Europe, Canada and Japan and other countries are challenging our competitive edge in many manufactured goods, as Secretary Stans outlined here last week. The "green revolution" is easing—at least temporarily—the demand for American farm products and trade balances in natural resources are worsening. These are real changes and present real problems. But they are no cause for the kinds of quota legislation now being proposed.

First of all, there are off-setting factors. For example, it is true that technology moves faster around the world today than in the past. It is also true that advanced technology is generated and applied much faster today than in the past. American primacy in this area is firmly established.

Secondly, other factors that have damaged our trade balance are subject to correction. We know an overheated economy sucks in imports. Economists can actually predict the abnormally high rates at which this occurs. We have had such an economy for a number of years, accompanied by inflation as the consequence of the war in Southeast Asia and rising demands at home.

ECAT believes that ameliorating these problems—so critically important in itself—will significantly improve our performance in trade. We also believe that the United States is capable of exporting far more than it does today.

Despite our declining trade balance, United States exports have continued to climb at the historic rate of seven percent a year. Those who despair of our competitive abilities either ignore this important fact or are unaware of it. This seven percent rate is not up to our capacities. I believe the United States could be termed an underdeveloped country when it comes to trade. Almost every country in the world exports a far higher percentage of its gross national product than the United States. We cannot blame this fact completely on our continental economy, on competitive factors or on foreign restrictions. Part of it is our own fault.

It is important to encourage export-mindedness in the United States and to provide the means for American producers to compete on even terms with others like export credit and tax incentives. It is even more important in terms of fairness as well as trade figures to use every means possible to open foreign markets to American products on the same basis that our markets are open. We do not believe this should be a subject for acrimony or name-calling but rather for vigorous, tough negotiation.

You have heard Administration witnesses proposed new measures to improve our export performance such as Domestic International Sales Corporations. We have not studied this matter to a point where we can comment precisely on various proposals but our members are well aware of the competitive advantages that foreign producers enjoy as a result of the assistance and encouragement they receive from their governments in world trade. We strongly recommend vigorous and even costly action to improve the export side of the trade equation. We believe that as American producers become more export-minded the initial investment will be repaid many times, that the appetite will grow on what it feeds, which is certainly the case in many other countries.

While there is great need for improvement, we must call attention to the inconsistency of protectionist claims that, on one hand, the United States cannot compete in world markets and that, on the other, there is widespread discrimination against our exports. After all, of our products were not competitive, there would be no need for other countries to discriminate against them. If discrimination were as severe as some say, we could not have racked up the big surpluses of the past or the modest, but improving, one of the present.

We must also recognize that one-sixth of American trade is covered by quotas. It is impossible for ECAT members to conduct our businesses around the world without being daily reminded that the United States has its full share of import restrictions. Unlike some countries, we have managed to accommodate many of these restrictions to the letter of international rules. It would be erroneous, however, for members of this Committee to presume that ours are the only clean hands in international trade or that ours is the only open market in the world. The facts are that no nation has perfectly clean hands or a wide open market.

What we believe is needed is the negotiation of a series of agreements adding up to a "fair competition policy" that would establish reasonably equal competitive conditions for all traders on matters like subsidies and bidding on government procurement. We believe that the kind of cooperation that would lead to such a policy could also be employed to establish common policies on issues assuming new importance in the world such as the safety of products traded internationally and even safeguards against undue damage to the environment.

ECAT can only predict that the forces working in favor of our trade balance will prevail and that vigorous efforts to obtain fairer treatment of American goods will succeed. We can, however, be categorical in stating that legislated quotas and other restrictions are self-defeating in terms of our trade balance. The record shows that restrictions breed restrictions, that nations can and do retaliate and the results cancel each other out on a downhill race. Protectionists will tell you this won't happen—ignoring recent American retaliation on chickens and Belgian retaliation on carpets. We are also certain that the cost of quotas domestically is higher prices, less ability to compete abroad and less incentive to compete at home.

Japan is probably the country where changes affecting our trade position have occurred most dramatically. In a few short years, our trade balance with Japan has completely reversed itself and we are now operating at a substantial deficit. ECAT has been very concerned about this situation. We note, among other things that developments in Japan shed light on the simplistic notion that low wages are the most important factor in world trade. Japanese wages have doubled and tripled in recent years and yet Japan's trade performance has steadily improved. Yet, despite its rapid rise in the ranks of major industrial powers, Japan still maintains a relatively closed market to both foreign goods and capital—a far cry from the environment of fair competition that we have espoused.

Rather than wring our hands about this situation, the members of ECAT see great opportunities in the Japanese market and we see equally great dangers, political as well as economic, in a policy of matching their restrictions with restrictions of our own making. We have met a number of times in the United States with Japanese business leaders who believe as we do—that the best interests of both countries are to be found in fair competition. This March, a team of ECAT members visited Japan for an important meeting with our counterparts there who have formed an ECAT-like group to press openly for liberalization of Japanese restraints on trade and investment. We have seen the results of their work and they are very encouraging although the outcome is still in precarious balance. We look forward to substantial American sales in Japan and profits from operations there, but we are most apprehensive about the danger of protectionism in the United States playing into the hands of the still powerful Japanese economic nationalists.

I would like to add that ECAT members have also met in the United States and Europe with a group of business leaders from the European Common Market. As in the case of our Japanese endeavors, we have encouraged them to urge upon upon their governments policies of fair treatment of American trade and investment. Just as the Japanese businessmen have given us evidence that they have been influential in accelerating a policy of liberalization, the Europeans have convinced us that they are working hard to prevent restrictions on such American exports as soybeans.

Obviously, these business-to-business contacts can only be of limited help in bringing about fairer treatment of American trade and investment. But, to the extent that they can help at all, ECAT is prepared to continue them. We believe there is too much at stake to overlook any medium of effective communication.

The chief device offered by protectionists for dealing with the U.S. trade balance has been import quotas.

Although ECAT does not wish to appear doctrinaire on any trade matter, it is difficult for us to be anything else on the subject of import quotas. I believe you are familiar with why we do not regard quotas as a practical solution to trade problems. In addition to the factor of retaliation, quotas should be anathema to any businessman. They place in the hands of govenrment officials the power to favor one firm over another, one region over another, one set of labor practices over another or what have you. No matter how skilled their administration, they are the hallmark of a "planned "as against a "market" economy.

As you know, Mr. Chairman, ECAT was formed to oppose quotas. We are well aware that the various proposals for "orderly marketing agreements" or "equitable trade" bills have a rhetorical appeal and a facade of fairness. But, in fact, they would restrict trade in a "meat ax" fashion. They would cut off competition without any proof of injury. Moreover, they would engender an alein idea in the

American economy—the idea that each industry should have an arithmetic share in future growth and be restricted to a fixed percentage of future resources. It is difficult to offer an analysis of how such measures would operate and what their precise effect would be because of the multitudes of uncertainties that attend them. Most would be a thrust into the unknown—a radical and even reckless experiment.

Voluntary quotas may also be more attractive than mandatory ones but they obviously have their own drawbacks. The bitterness that has been engendered in Japan and other countries by real or imagined inequities in certain voluntary quotas is evidence of this. ECAT has not opposed voluntary quotas when they are the only pracitcal alternative to more objectionable measures. We are not purists on the subject. This leads to the difficult subject of textile quotas.

The members of ECAT are naturally reluctant to disagree publicly with fellow businessmen, who in many cases are old and valued customers. Yet we cannot concur with the view of the textile industry that textile quotas should be applied across-the-board and that the time-tested and internationally accepted principle of proving injury before relief is granted should be abandoned. These principles, Mr. Chairman, are hard won in this world, it is in the interests of the United States to do everything possible to strengthen rather than undermine them. They include, for example, the principle that expropriation should not take place without prompt and adequate compensaton. This is really a "law and order" issue and the United States has the most to lose if the few rules that have been established are vitiated.

Again, we are not unsympathetic to the textile industry's problems. We are aware that disagreements exist as to very important facts such as sales, profits and employment. We recognize that aggregate statistics can often mask particular problems. These problems can be painfully real and should be exposed so that, when damage is being done to a particular part of the industry, remedies can be applied. It is, of course, our hope that when relief is justified, it will be granted in accord with international obligations. In short, we recommend relief when demonstrated and warranted. If this relief could take the form of voluntary agreements with supplying countries, we would welcome it.

What I have said about textiles is generally applicable to other industries experiencing difficulties.

I would like to add another cautionary comment about dealing with other countries on problems of imports. You will hear many arguments based on self-interest. Certainly, the views of ECAT spring from self-interest—enlightened we hope—but self-interest, nevertheless. In the case of Japan, we believe that the current fixation with textiles that has required so much attention over the past year while the problem of open markets has been neglected is like playing ball in a sand lot rather than in the big ball park. We believe that much of the time and energy devoted to the textile problem with Japan could have been better used in opening the growing Japanese market to American autos and farm goods and the like. We ask you to consider this view when you hear the views of those who would have quotas at any price.

In this connection, we would like to emphasize our recognition that action on trade policy should be considered in the context of the interrelationship of all elements of our international economic policy. I have mentioned our business concern with the close relationships between trade and investment. We realize that you must bear in mind the fact that action on either of these matters will have ramifications in other areas such as monetary and financial affairs. We fully realize that the hearings before this Committee relate to a very large and crucial universe of which we as businessmen are only a part.

THE TRADE ACT OF 1969

When the President sent his message on foreign trade to the Congress on November 18, 1969, ECAT commented:

"In his proposed Trade Act, President Nixon appears to have written precisely the right prescription for the United States at this juncture in its trading relations with the rest of the world."

We have since been able to study the Act further and are now able to place our considered support behind what we regard as a positive program, one that will make clear to the rest of the world that American trade policies will continue to be sensible and consistent. We further believe that the Act will stimulate similar prudent and positive actions on the part of other nations.

NEGOTIATING AUTHORITY

ECAT supports the granting of authority to the President for a three-year period to reduce tariffs by 20 percent or two percentage points ad valorem below the rate on July 1, 1967. We understand that no important new tariff negotiations are envisaged but the authority would enable the United States to offer a tariff reduction on one product in compensation for an increase in the tariff on another. Such tariff increases might occur, for example, as the result of an escape clause action. Without such compensation, the affected countries might choose to retaliate against U.S. products—which is how trade wars start. We would also have to go back to the time before the Trade Agreements Act of 1934 was passed to find another period when the President had no latitude to negotiate reductions in tariffs.

AMERICAN SELLING PRICE SYSTEM (ASP)

ECAT would welcome the long overdue abolition of this anachronistic feature of the import valuation system in our foreign trade policy. It has been an impediment to the United States in our efforts to obtain fairer treatment of American exports by the elimination of many non-tariff barriers in other nations. The original reason for granting special protection for benzenoid chemicals in 1922 to foster the development of a new industry has long since disappeared. There is now no justification for providing privileged treatment to one industry while denying it to others. ECAT understands that the elimination of ASP will result in additional reductions by other nations of tariffs on U.S. chemical exports and end certain non-tariff barriers that impede exports of U.S. automobiles and tobacco. We consider this a fair deal with important symbolic benefits.

CONGRESSIONAL STATEMENT ON NON-TARIFF BARRIERS

In his message to the Congress, the President requested a Congressional statement of intent that would direct him to seek to negotiate the reciprocal lowering of such barriers. We realize this will be a difficult undertaking and are pleased that the President has promised to work closely with the Congress in carrying out its intent. ECAT warmly endorses this proposal and its members will cooperate with government officials in the efforts resulting from it.

ESCAPE CLAUSE

The escape clause is intended to enable American industries to adjust to serious injury from imports through the temporary imposition of higher tariffs or quotas. The bill provides that relief will be available whenever increased imports are the primary cause of actual or threatened serious injury to a domestic industry. Presently, the import increases have to be related to an earlier tariff reduction. In fact, most U.S. imports have been subject to such tariff concessions and ECAT believes that if imports are a cause of injury, that is the relevant fact and prior tariff reductions are now only incidental. We know this change will be criticized by many advocates of freer trade but we have concluded that is a practical means of assuring fair consideration for the needs of domestic industries. We assume, however, that the Congress will make it clear that it wishes the test of imports as a "primary" cause of serious injury to be a meaningful and exacting one.

ADJUSTMENT ASSISTANCE

ECAT strongly supports the concept of assisting industries, individual firms and groups of workers to adjust to foreign competition. As in the case of the escape clause, we believe the President's proposal to drop the link between increased imports and prior tariff concessions to be a sensible one. We also think that the proposal for requiring that imports only be a "substantial" rather than a "primary" cause of damage is reasonable.

With regard to both the escape clause and adjustment assistance, ECAT would like to see steps taken to assure more prompt action on industry requests. ECAT is unwilling to defer to anyone in its concern for the plight of businessmen and workers in demonstrated need of assistance as the result of the effects of foreign trade. In our opinion, the failure of administrative procedures to provide such assistance promptly and in full measure is a national disgrace. Like justice, "assistance delayed, is assistance denied." We do not offer any specific proposals on how this situation may best be corrected but suggest that Congress express its views.

RESTRICTIVE ACTIONS BY OTHER COUNTRIES

ECAT is, of course, opposed to all forms of unfair competition but believes that these should be dealt with under international rules. We approve of that part of the recommended revision of the Trade Expansion Act of 1962 that would extend Section 252 coverage to all U.S. products and not just agricultural ones. On the proposal for extending the potent retaliatory power of this section to cases of subsidies of exports to third countries, we believe this might better be dealt with by the negotiation of an international code that would define subsidies, their legitimate uses and limits and provide appropirate sanctions for violations. This approach is consistent with ECAT's espousal of a "fair competition policy" and with the spirit of GATT.

Like many businessmen, the members of ECAT have been troubled by the fact that Section 252 presently overlooks the close link between U.S. investments and exports. ECAT has worked for recognition of the important fact that when a country restricts our investment, it also damages our trade since investments almost always result in substantial exports of machinery, parts and the like. Therefore, in Exhibit A, ECAT offers detailed justification for an amendment that would establish this link and the statutory language recommended for effecting it. We commend this to your attention as a matter for serious concern.

GENERAL AGREEMENT ON TARIFFS AND TRADE

ECAT is pleased to be able to endorse the proposal for annual appropriations of the United States contribution to GATT. This simple action will have useful ramifications in our efforts to encourage fairer treatment of American trade.

ITEM 806.30 AND 807.00 OF THE TARIFF ACT

ECAT recommends that the present patchwork treatment of American-made products, that are exported and then returned to the U.S. with foreign value added, be made consistent. We are strongly opposed to eliminating the present sections unless this is accomplished. Without the present sections, the United States would lose valuable export markets and any gains in U.S. employment resulting from elimination would be quickly offset. In addition, ECAT is opposed to the principle of placing any tariffs on American-made products.

In conclusion, ECAT would like to thank the Committee for its interest in our views and for the monumental canvassing of the opinions of so many Americans at these hearings. We hope we have been helpful and we hope we have adequately documented our judgment that American trade policy should be continued in the same spirit that has earned it wide acclaim as the most successful economic policy of our time.

EXHIBIT A—RATIONALE FOR PROPOSED AMENDMENTS TO SECTION 252 OF THE TRADE EXPANSION ACT OF 1962

The attached proposed amendments to Section 252 of the Trade Expansion Act of 1962 would modify this section in three respects:

1. The President's authority to retaliate against countries maintaining unjustifiable restrictions against U.S. commerce would be broadened to encompass all U.S. exports, not just agricultural exports.
2. The President would be armed with new authority to impose discriminatory import restrictions against countries nullifying or impairing tariff concessions to the United States by restrictions on U.S. direct foreign investment.
3. The President's use of his retaliatory authorities under this section would be circumscribed by an enjoiner to take "due regard for the international obligations of the United States."

BROADENING THE PRESIDENT'S AUTHORITY

At present, Section 252 authority to take retaliatory action against countries unjustifiably restricting U.S. commerce is limited only to U.S. agricultural products. U.S. efforts to ensure fair treatment for U.S. exports would be strengthened considerably if the President had the means to take effective action on all American exports.

EXTENDING THE PRESIDENT'S AUTHORITY TO FOREIGN INVESTMENT RESTRICTIONS

A country is in violation of the General Agreement on Tariffs and Trade (GATT) when it fails to compensate another country for nullifying or impairing tariff concessions granted in return for reciprocal concessions.

Thus, if a country grants reciprocal tariff concessions on parts and components and then denies its trading partner, by investment restrictions, the opportunity to assemble these parts and components, ECAT is of the opinion that the tariff concessions granted to the United States have been nullified or impaired.

The case of the automobile industry provides an excellent example. The fact that U.S. automobile manufacturers have not been allowed to invest in Japan precludes a substantial volume of shipments of productive car-making equipment to Japan, as well as necessary components and parts for assembly, that would follow the direct manufacturing investments. Further, tariff concessions on such equipment, components and parts have little, if any, consequence in absence of the ability to invest. The value of such tariff concessions, therefore, is impaired by the investment restrictions. Under current law, the President has no authority to deal with this problem.

The proposed amendment to Section 252 would remedy that deficiency. It would give the President the authority to impose discriminatory restrictions against imports from countries restricting U.S. foreign direct investment when such restrictions impair or nullify tariff concessions that have been granted to the United States. Such discriminatory restrictions would be imposed, however, in accordance with our international obligations under the GATT, particularly, in accordance with Article XXIII, which provides for discriminatory import restrictions against any country nullifying or impairing tariff concessions.

LIMITING THE PRESIDENT'S RETALIATORY AUTHORITY

Subsection (a)(3) of Section 252 authorizes the President to impose retaliatory restrictions on imports from any foreign country maintaining unjustifiable import restrictions against U.S. agricultural products to the extent that he deems such action necessary and appropriate, "notwithstanding any provision of any trade agreement." In other words, exercise of this provision could be under circumstances that would violate our GATT obligations.

ECAT firmly believes that the United States should always act in conformity with its international obligations, lest it provide a poor example to the rest of the world to the detriment of U.S. commerce. For this reason, Section 252 should be amended, so as to delete the clause condoning action in violation of our international obligations and to enjoin the President to take "due regard for the international obligations of the United States."

PROPOSED AMENDMENTS TO SECTION 252 OF TRADE EXPANSION ACT OF 1962

Subsection 252 of the Trade Expansion Act of 1962 (19 U.S.C. 1882) is amended as follows:

(a) In subsection (a)(3), strike "notwithstanding any provision of any trade agreement under this Act" and insert in lieu thereof "having due regard for the international obligations of the United States", and strike "agricultural" wherever it appears.

(b) Subsection (d) is redesignated subsection (e), and a new subsection (d) is inserted reading as follows:

"(d) Whenever the President determines that—

(1) a foreign country of instrumentality has granted a tariff concession applicable to a United States product;

(2) such United States product is not likely to be exported in significant quantities to such foreign country or instrumentality unless direct United States investment is made in that country or instrumentality in order to assemble, manufacture, or further process such product;

(3) such foreign country or instrumentality has imposed unjustifiable or unreasonable restrictions on such direct United States investment; and

(4) such foreign country or instrumentality has thereby impaired or nullified the value of the tariff concession applicable to such United States product,

the President may, to the extent that such action is consistent with the purposes of section 102, and having due regard for the international obligations of the United States, impose duties or other import restrictions onthe products of such foreign country or instrumentality."

(c) New subsection (e) is amended by inserting after "United States commerce" in the first sentence "and concerning the restrictions on direct United States investment abroad which are referred to in subsection (d)".

MEMBERSHIP

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Lee S. Bickmore, Chairman, National Biscuit Company.

James H. Binger, Chairman of the Board, Honeywell, Inc.

William Blackie, Chairman of the Board, Caterpillar Tractor Co.

W. Michael Blumenthal, Vice Chairman, The Bendix Corporation.

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H. C. Harder, Chairman of the Board, CPC International, Inc.
D. J. Haughton, Chairman of the Board, Lockheed Aircraft Corporation.
Ellison L. Hazard, Chairman of the Board and President, Continental Can Company, Inc.
H. J. Heinz II, Chairman of the Board, H. J. Heinz Company.
William A. Hewitt, Chairman, Deere & Company.
William R. Hewlett, President, Hewlett-Packard Company.
Edward B. Hinman, President, International Paper Company.
Melvin C. Holm, Chairman of the Board, Carrier Corporation.
Robert S. Ingersoll, Chairman, Borg-Warner Corporation.
J. K. Jamieson, Chairman and Chief Executive Officer, Standard Oil Company (N.J.).
Gilbert E. Jones, Chairman, IBM World Trade Corporation.
Donald M. Kendall*, President and Chief Executive Officer, PepsiCo, Inc.
John R. Kimberly, Chairman Finance Committee, Kimberly-Clark Corporation.
Donald P. Kircher, President, The Singer Company.
Edwin H. Land, President, Polaroid Corporation.
James A. Linen, Chairman of the Executive Committee, Time Incorporated.
Ian MacGregor, Chairman, American Metal Climax, Inc.
Thomas B. McCabe, Chairman, Finance Committee, Scott Paper Company.
J. I. Miller, Chairman, Cummins Engine Company, Inc.
Milton C. Mumford, Chairman of the Board, Lever Brothers Company.
James A. Newman, Executive Vice President, Booz, Allen & Hamilton Inc.
Peter G. Peterson, Chairman of the Board, Bell & Howell Company.
Rudolph A. Peterson, Chairman of the Executive Committee, Bank of America, N.T. & S.A.
John J. Powers, Jr., Chairman and President, Pfizer, Inc.
T. J. Ready, Jr., President, Kaiser Aluminum & Chemical Corporation.
C. W. Robinson, President, Marcona Corporation.
James M. Roche, Chairman of the Board, General Motors Corporation.
David Rockefeller, Chairman of the Board, The Chase Manhattan Bank, N.A.
W. E. Schirmer, Chairman and President, Clark Equipment Company.
Fred M. Seed, President, Cargill, Inc.
Robert D. Stuart, Jr., President, The Quaker Oats Company.
Charles E. Swanson, President, Encyclopaedia Britannica.
A. Thomas Taylor, Chairman, Deltec International Ltd.
Charles B. Thornton, Chairman, Litton Industries, Inc.
Lynn Townsend, Chairman, Chrysler Corporation.
John M. Will, Chairman of the Board, American Export Isbrandtsen Lines.
Joseph C. Wilson, Chairman of the Board, Xerox Corporation.
Walter B. Wriston, Chairman, First National City Bank.
Robert L. McNeill, Executive Vice Chairman, ECAT.

(Whereupon, at 12:40 p.m., the committee recessed, to reconvene at 2:30 p.m., this same day.)

Clerk's Note.—Testimony taken during the afternoon session of the committee was not subject to the objection raised in the Senate Chamber that the Committee on Finance should not meet during the session of the Senate. The Senate adjourned at 1:29 p.m. Testimony taken during the informal meeting of Finance Committee Senators begins at page 51 and proceeds to this point.

*Chairman of ECAT.

AFTERNOON SESSION

The CHAIRMAN. The committee will come to order.
Is Mr. Gerald O'Brien in the room?
Mr. O'Brien, we will hear from you if you are ready, sir.

STATEMENT OF GERALD O'BRIEN, EXECUTIVE VICE PRESIDENT, AMERICAN IMPORTERS ASSOCIATION

Mr. O'BRIEN. My name is Gerald O'Brien. I am executive vice president of the American Importers Association. We very much appreciate, Senator, this opportunity to appear before this committee, even though it was awfully short notice.

Our organization was established in 1921 and has become the recognized trade association of American importers. At the present time we have more than 800 members throughout the United States. Most of our members are actual importers who bring into this country from almost all the other countries of the world a wide variety of commodities ranging from raw materials, and semimanufactures to finished food products, beverages, and other consumer goods. We also have in our organization individuals and firms which serve importers, for example, customhouse brokers, attorneys, banks, marine insurance, and transportation companies.

The subject of this hearing, H.R. 18970—the Trade Act of 1970, is the most drastic change in American trade policy since the Smoot-Hawley Act of 1930. It has not been passed by the House of Representatives—in fact, it barely cleared the Rules Committee by a vote of eight to seven, and it will not be debated in the House until after the election.

There can be no illusion that this bill is not controversial. The bill reported out by the House Ways and Means Committee has been labeled by the dissenting minority of that committee as "* * * restrictive, ill timed and provincial. It will provide artificial market controls and increase prices. It is inflationary. It decidedly reflects a lack of confidence in the basic worth of our own competitive system."

H.R. 18970 is the most misguided, as well as the most complex and artfully designed piece of trade legislation in memory. It masquerades as necessary to rescue beleaguered domestic industries and American labor from the inroads of "unfair" foreign competition. In the same breath it offers a sop to consumers and importers through provisions which permit the exemption of some footwear and textile items from statutory quotas and at the same time establishes elaborate and confusing criteria for escape-clause relief for other industries.

It constitutes a hunting license for almost any domestic industry to seek protection. It invites retaliation by foreign governments against billions in U.S. exports, and that it is doing so at the direct expense of the American consumer, of the American farmers, workers and manufacturers whose livelihood depends on exporting, and of the national interest so frequently cited in the language of the bill itself. If this bill becomes law, we will be living with import quotas on most footwear and textile articles for the next 5 to 10 years. Most of the 70 or more other industries which claimed hardship due to import competition at the House Ways and Means Committee hearing last June will be petitioning the Tariff Commission for higher duties or import quotas and many will obtain such relief.

Under an arbitrary mathematical formula, increased duties or quotas are virtually mandatory if import penetration of the U.S. market reaches 15 percent and certain other criteria are met.

The bill sets statutory quotas on footwear and textiles but permits the President to negotiate voluntary agreements at levels in excess of those set by statute and to exempt any item which he finds is not disruptive of the U.S. market. It also pays lipservice to the consumer by permitting the President to increase quotas if he finds domestic supply inadequate to meet demand at reasonable prices These ameliorating provisions will probably prove to be a farce and a mirage.

There is no real difference between voluntary and legislated quotas which have the same net effect of subsidizing noncompetitive domestic industries at the expense of consumers through artificial limitation of supply. The bill does not define "reasonable price" or "adequate supply" for the purposes of raising a quota in the consumer interest. The suggested criteria for market disruption specify that increasing imports, at prices substantially below those of domestic items are among the circumstances which constitute a market disruption, thus ensuring that import quotas will be placed on high-volume, lower priced textile and footwear imports.

Most unfortunate of all, every one of these ameliorative determinations is left to the President, who is thus exposed to endless detailed decisions and intense political pressure with respect to trade matters.

The bill drastically complicates and weakens the criteria for granting import quotas or higher duties to other industries under the "escape clause." The Commission is directed to grant relief even if imports are not shown to be the "major" cause of actual or potential injury, as under the present law; a showing that imports have contributed "substantially" to serious injury will require the Tariff Commission to make specific recommendations as to the actual tariff increase or quantitative quota needed to "prevent or remedy" such injury.

The segmentation concept of the Trade Agreements Extension Act of 1951, defining an "industry" as that segment of the producing company or plant which makes a specific article is reinstated, making it possible to find injury with respect to countless articles produced by plants or companies which, overall, are operating at high levels of profit and have sustained no injury whatsoever.

Although the President may override Tariff Commission recommendations for quotas or higher tariffs on the grounds that they are not in the national interest, he is nevertheless then required to offer adjustment assistance to firms and workers. Congress can impose the tariff or quotas recommended by the Commission even if the President rejects them, in cases where imports have reached a 15-percent share of the U.S. market or increased by specified percentages over a given period of time.

Any sudden increase imports of any article due to changing fashion, changing technology, or even to a modest shift of production for the U.S. market from domestic to overseas operations by an American firm, could trigger these virtually mandatory import quotas or duty increases or throw them into the political arena.

There can't be any doubt about the likelihood of a flood of demands for import quotas. The House Ways and Means Committee report urges a substantial increase in Tariff Commission personnel to handle the expected sharp increase in petitions by domestic industries and the protectionists have already hailed the revised "escape clause" as likely to result in import quotas on a long list of items.

It is ironic that this bill should have been adopted in an atmosphere of political compromise and concession instead of sound economic analysis; it is even more ironic that it should be justified in an atmosphere of utter pessimism and defeatism as to this country's ability to compete in the world marketplace, to adjust to competition, cope with inflation, and deal constructively with our balance-of-payments problems.

The House Ways and Means Committee has yielded to protectionist pressure and made a wrong diagnosis of, and the wrong remedy for, two of the Nation's continuing economic problems: (1) how to deal with the anomaly of recession in the midst of inflation and, (2) how to deal with our balance-of-payments problem. We urge this committee of the Senate not to do likewise.

The justification of import quotas or other barriers as a solution to the balance-of-payments problems has been refuted by recent developments and past experience. Late last year, prophets of doom foresaw a 1970 trade surplus as low as $1.5 billion following on the heels of surpluses of only $835 million and $1.26 billion in 1968 and 1969 respectively. In January, the Department of Commerce predicted a 1970 surplus of about $2 billion. By July of this year, the 7-month trade surplus was running at the rate of $3.5 billion and a minimal surplus for the year of $3 billion is now predicted.

A similar turnabout in U.S. trade with Japan—the main target of the alliance seeking footwear and textiles quotas—is in view. Although the U.S.-trade balance with Japan admittedly deteriorated in recent years—U.S. exports to Japan during the first 7 months of 1970 totaled $2.6 billion and chalked up an increase of 46 percent over those for last year, while imports from Japan rose by only 18 percent during the same period.

It is now expected that the U.S.-trade deficit with Japan will be reduced by some 40 percent this year. The release of the 7-month figures was accompanied by a press story quoting the conclusions of a study for the President's Committee on International Trade and Investment just completed by the Federal Reserve Board, indicating that the United States would have had an export surplus of at least $4 billion in 1969 "if excess demand and inflation had not been allowed to develop after 1965."

The study came out at the same time as a speech by Dr. Hendrik Houthakker of the President's Council of Economic Advisers in which he pointed out that:

> The American economy is strong enough to participate in the growth of world trade, which means both more imports and more exports. The means for dealing with any transitional problems are already at hand.
>
> Growth in imports means, of course, that some of our domestic industries are faced with increased foreign competition, just as some of our export industries are benefiting from increased foreign demand. These changes in imports cause adjustment problems. What is needed, essentially, is that some resources be shifted from import-competing to exporting industries. Such a shift should be in the interest of the affected workers, since the wages they would receive in the export industries would normally be higher than those they now receive in industries that are affected by imports. If we keep inflation under control, it is quite conceivable that our trade surplus will again reach the ($5.0) billion level of the 1960's.

It is really incredible that Congress would seriously consider turning the Nation back to protectionism. President Nixon has stated:

I believe that the interests of the United States and the interests of the whole world will best be served by moving toward freer trade rather than toward protection.

At the time he said this, the Wall Street Journal editorialized thus:

No foreign country is going to participate in a textile arrangement without exacting stiff concessions from this country. The European Economic Community is likely to demand the reciprocal right to impose a special tax on oil seed products, a measure that could jeopardize nearly $500 million of American soybean exports. In Japan, which is being asked to lift import quotas and loosen import restrictions by American export companies, protectionist sentiment would be greatly strengthened. Unquestionably, President Nixon is confronted with a difficult political problem. Like the late President Kennedy, he built Southern election support by promising more textile protection. But, when the United States is deeply involved in several important trade negotiations, the cost of honoring that regional debt is much too high.

There is little doubt but that there will be retaliation—with disastrous consequences not only to importers but to U.S. exporting industries and their employees, to American farmers who ship about 25 percent of their produce abroad, and to workers on the docks and in transportation and allied trades.

Potential retaliation in response to textile and footwear quotas, alone, would affect about $500 million in U.S. exports. Under an eased escape clause, threatening an avalanche of other quotas, the base for retaliation could run the total into billions.

Under the rules of the General Agreement on Tariffs and Trade, the United States has two choices: (1) accept retaliation from other countries in equal amount of trade, or (2) compensate other countries by reducing tariff or quota barriers by an equal amount. If tariff compensation is used by the President under his present authority of 20 percent, $2.5 billion of imports could be affected.

Some people might say the United States has a third choice—forget the GATT rules and go it alone. In my opinion, this would be a monumental mistake. We tried that in 1930 and it was a disaster. After worldwide depression followed by World War II, the United States took the lead in organizing GATT for the primary purpose of establishing some rules of the game. GATT may not have functioned perfectly but it is vastly more advantageous for this country to maintain it and multilaterally agree on a change of the rules than to abandon it or ignore it.

Retaliation by other nations, as they did in 1930, is a reality which cannot be ignored. The European Common Market has estimated that $1.6 billion of exports to the United States would be affected by the quota provisions of this bill as well as the escape clause trigger mechanism.

A very recent Tariff Commission study shows that some $6.1 billion of U.S. 1969 imports—other than textiles and apparel and footwear—also qualified for special consideration for quotas or increased duties on the basis of the market penetration criteria established in the bill. The list of "eligible" items is an appalling one. It includes: albums, automobiles, chinaware and earthenware articles, baseball gloves and mits, barbed wire, certain bells and gongs, bicycles, calculating machines, certain clocks and clock movements, clothespins, household glassware, leather and other gloves, marble and travertine, mosaic tiles, mattocks, sledges, crowbars, tacktools, nails and screws; microphones, loudspeakers and amplifiers; power transmission chain: radio and TV sets, tape recorders and dictation machines; sewing machines; table tennis sets; tennis rackets and equipment; umbrellas; wooden blinds, shutters, screens and shingles; hardwood plywood; and a long list of food products, metals and ores, chemicals and related products.

When the facts surrounding the loudest protectionist industries are brought into the daylight for public scrutiny, it is clear that there is no economic justification for either textile or footwear quotas.

Senator, at this point, I would like to depart from the text to react to a question Senator Fulbright asked this morning as to why textiles and footwear had not gained or been given any escape-clause relief. It is really very simple. They have never asked for it.

The textile and apparel industries have prospered to an unprecedented degree in recent years and is still holding its own admirably in the current recession, relative to other industries. Textile industry sales rose 63 percent and before-tax profits more than doubled between 1961 and 1969; apparel industry sales rose 85 percent and before-tax profits nearly tripled in the same period. Although first quarter 1970 profits declined for both industries—in common with many others—total sales were up nearly 5 percent over the first quarter last year. Overall employment in textiles and apparel rose by some 300,000 jobs between 1961 and 1969, and last month still provided nearly 260,000 more jobs than in 1961. August 1970 employment was down only 3 percent from that for August of last year.

The domestic footwear industry is not entitled to protection from imports. Impartial investigation has repeatedly shown that undercapitalization, failure to modernize, failure to adapt to fashion trends and inability to attract labor are at the root of its problems.

The President's Interagency Task Force on Footwear reported that the facts and information available do not constitute a case of (import) injury to the overall footwear industry and that the imposition of quotas was not an "appropiate" solution. By order of the President, the Tariff Commission is investigating whether any tariff or quota relief or adjustment assistance is needed by any segments of the industry because of actual injury due to imports. If it finds the footwear industry does need protection, there are adequate measures in existing law.

Import quotas and higher duties will give impetus to a new round of inflation at the consumer's expense. Import restrictions will compound the balance-of-payments problem—very likely without easing the plight of the relatively few production workers in domestic industries suffering from economic dislocation which for the most part stems more from automation and other dislocations within the domestic economy than from imports. The steel industry offers an interesting case in point.

Back in 1967 and 1968, management and the steelworkers joined forces in a drive on Congress for import quotas. The industry claimed inability to compete with foreign producers; both management and the union claimed that if all the steel imported in 1967 had been produced in the United States there would have been jobs for 70,000 additional workers. The voluntary steel agreement subsequently reached between the United States, Japan, and the Common Market reduced 1969 steel imports by some 4 million tons.

During that year, domestic steel production rose by some 10 million tons and the industry enjoyed a sharp increase in exports due to rising world demand for steel. Despite this fact, the number of production workers employed in the domestic industry declined by 5,000—due to automation. In the same period, the domestic industry raised prices, overall, by about 11 percent. Foreign steel shippers not only began to follow the domestic industry price lead with their own increases but, faced with quotas, concentraded increasingly on shipments of higher priced specialty steels to the United States. By July of this year, the domestic industry had increased prices, overall, by about 19.5 percent over those in effect when the quotas came into being.

The CHAIRMAN. I regret, sir, but we are operating on a strict 10-minute rule, and you have used your 10 minutes. In fact——

Mr. O'BRIEN. You did not tell me, Senator.

The CHAIRMAN. But would you please just summarize the remainder of your statement, then.

Mr. O'BRIEN. All right.

The CHAIRMAN. I have read it while you were reading it, and I think the same is true for the other members here.

Mr. O'BRIEN. Ultimately the bill for import quotas will have to be paid by the American consumer who will not only find himself increasingly limited as to chioce of merchandise, but find that one of his few props in the losing battle against inflation has been removed. As a labor spokesman recently told the House Ways and Means Committee:

> In today's inflationary economy where working people have to run like the dickens just to stand still, imports offer one small measure of price control.

Beyond question, the imposition of import quotas can only give new impetus to the inflationary spiral. They will reduce total supplies of consumer goods on the U.S. market; they will cut off, in particular, low-priced goods which have no domestic ounterparts. It is interesting to note that more than half of all footwear imports retail at prices of less than $3 a pair and would not be available to the low-income groups who buy them if it were not for imports.

Similarly, low-priced apparel imports, mainly blouses, sweaters, and shirts, offer consumers savings of 25 to 30 percent in some cases. Items such as these are the primary targets of the footwear and textile quotas and will be the targets of petitions by other industries for relief under a relaxed escape clause. As under the steel quota system, foreign producers, facing quantitative limits, can be expected to concentrate increasingly on higher price, higher margin items.

Domestic producers, protected both by an absolute decline in import volume and by foreign concentration in higher priced merchandise, will be able to raise their prices with impunity; and foreign suppliers, in turn, can and will follow the domestic industry's lead.

An example of the penalty which consumers pay is the fact that under longstanding U.S. sugar quotas, U.S. sugar prices today are about 2.3 times the world market price. Similarly, the administration's failure to raise meat import quotas, combined with virtually static domestic production levels, has resulted in an 18.8-point increase in the Consumer Price Index for meat products in the past 2 years.

It is for this reason that Virginia Knauer, the President's Assistant for Consumer Affairs, has declared she is "alarmed over the disregard of the American consumer evidenced by the restrictive trade bill presently before the House Ways and Means Committee * * * this bill is the most significant 'anticonsumer' legislation now in the Congress. The imposition of import quotas will hurt virtually every consumer in the United States, particularly lower income consumers * * *. If, as many economic experts believe, a trade war results and other nations do retaliate, there will be an even greater reduction in the supply of goods and price competition and the effect on the consumer will be devastating."

There will also be a very negative effect on our foreign policy and relations with the less developed countries who are disenchanted with the slogan, "Trade Not Aid" because they see aid from the United States going down while trade does not go up.

The big problem of the seventies, however, is not the affluent nations with which the United States now trades, but the less developed countries which are trying to escape from solely agricultural economies and join the big trading nations by producing industrial goods. The less developed countries through a United Nations Commission have been pushing for preferential tariffs on their exports of manufactured goods to the powerful, developed countries of the world. One of the main exports such countries can develop with their limited capital and technical know-how is textiles.

Without passing judgment on the merits or demerits of a preferential tariff, we should recognize that the Congress is considering the curtailment of imports of textiles from not only developed countries like England and Japan, but underdeveloped countries like Taiwan, South Korea, and Pakistan, plus others in Africa and Latin America who might go into textiles are the very countries who could be big markets for American exports of automobiles, radios, refrigerators—all the things of modern life which these underprivileged people yearn to have.

American businessmen are not unique in believing that protectionism is a valid, defensible policy for a nation. There are the same forces in business circles in Europe and Japan. The very great danger for all the world economy is that a little protection to take care of special circumstances in one country will trigger a reaction by other nations and ultimately an avalanche just as it was in 1930.

H.R. 18970 is a bad bill. It does have a few redeeming features such as the repeal of American selling price, tariffcutting authority for the President and liberalization of adjustment assistance. These are all desirable but the dangerous and harmful features of the bill far outweigh the good.

Furthermore, the enactment of H.R. 18970 is not necessary since all of the good features are included in the President's trade bill H.R. 14870. We urge this committee to reject the bill reported by House Ways and Means Committee and support the President if and when his bill ever reaches the Senate.

Trade legislation is too serious to be rushed through without extensive hearings where all interested parties have an opportunity to be heard. The short notice, less than 24 hours, given for this hearing has made it almost impossible for really adequate testimony to be given by the most desirable witnesses. The brevity of the time allotted for the hearing is excluding many persons and organizations, and it is denying the committee the benefit of much expert knowledge.

I sincerely hope that more extensive hearings will be held before the committee takes any action on this very important legislation.

In concluding, there is one last point I would like to make. Trade policy would not be the hot issue it is today if organized labor had not abandoned its longstanding advocacy of a liberal trade policy. What brought about this change? The spiral of inflation and wage demands since 1965. American exports are being priced out of world markets and imports are being sucked into the U.S. market because this country has failed to control inflation. Congress cannot isolate the United States from the rest of the world either economically or politically. Our standard of living is higher than the rest of the industrial nations and has been so for a long time. But we cannot accelerate indefinitely and expect to widen the gap even more.

Tariffs were tried in 1930 and were a disaster. Quotas won't solve the problem in 1970, and they can cause another disaster.

The CHAIRMAN. Thank you very much, sir.

Any questions, gentlemen?

Senator BENNETT. I just want to ask you, did you testify before the House?

Mr. O'BRIEN. The chairman of our Trade Policy Committee, Mr. Ralph Cutler, did.

Senator BENNETT. So the testimony of the American Importers Association is available in the House record and, of course, it is available to this committee.

Mr. O'BRIEN. Yes, sir, indeed.

Senator BENNETT. So we have not cut you off to the limit of whatever you may have said this morning?

Mr. O'BRIEN. That is right. It is all in here, Senator.

Senator BENNETT. Thank you.

The CHAIRMAN. Thank you very much.

The next witness will be O. R. Strackbein, president of the Nationwide Committee on Import-Export Policy.

STATEMENT OF O. R. STRACKBEIN, PRESIDENT, THE NATIONWIDE COMMITTEE ON IMPORT-EXPORT POLICY

Mr. STRACKBEIN. Mr. Chairman and members of the committee, I have a very brief statement here.

I appear on behalf of the Nationwide Committee for Import-Export Policy. This organization is composed of industries, trade associations, firms and farm and labor groups that have in common the problem of import competition. Some 50 industries and groups are represented by the committee.

Testimony was presented before the House Ways and Means Committee last May, and I would like to incorporate it in this hearing by reference unless, you having no objection, I offer it for the record.

The CHAIRMAN. It will be printed at this point.

Mr. STRACKBEIN. Thank you.

(The prepared statement referred to follows. Hearing continues on page 125.)

STATEMENT OF O. R. STRACKBEIN, PRESIDENT, THE NATION-WIDE COMMITTEE ON IMPORT-EXPORT POLICY BEFORE THE COMMITTEE ON WAYS AND MEANS

My name is O. R. Strackbein. I am president of the Nation-Wide Committee on Import-Export Policy. This organization is composed of industries, companies, associations, agricultural growers and some labor organizations that have in common the problem of import competition.

I wish to offer a very brief review of the Trade Program as the basis for the proposals I shall offer later in this statement.

REVIEW OF TRADE AND TARIFFS SINCE 1934

Thirty-six years ago the United States embarked on a radical new departure from our predominant tariff policy of the preceding one hundred and twenty-five years. The Hawley-Smoot tariff of 1930 had been charged with high economic crimes, including the precipitation and prolongation of the Great Depression. It was condemned as the sire of virtually all our woes in the mid 'thirties.

A veritable anti-tariff crusade was launched, lasting thirty years, ending with the Kennedy Round only three years ago. We gutted our tariff and should, according to the prescription, be dwelling in Paradise now. Unfortunately as I look about and around I do not see many elements of Pariside on the landscape. We asked little and received little from our trading partners in return for our tariff cuts, except what they were willing to grant us without injury to themselves

We have reduced the protective effect of our tariff upward of 80%, so that our average duty on dutiable items is about 11% on the foreign value of imported goods. About 38% of the total imports are free of duty. This leaves the tariff burden on our total imports at about 7%. This will drop some more as the remainder of the Kennedy Round reductions take effect.

Beyond that we have a handful of import qoutas, mostly on agricultural products: raw cotton, wheat, wheat flour, dairy products, sugar, peanuts. We have one quota on mineral products, namely, petroleum. Then we have what comes in effect to a quota on cotton textiles and steel. We have placed a ceiling in lieu of an import quota on imported meat.

We employ only a few of the other nontariff devices used extensively by other countries, such as exchange controls, import permits, special taxes, etc., to protect their industries and promote their exports. We have the Buy American and the Anti-Dumping Acts.

Moreover, unlike most other countries we have not devalued our currency during the tariff-cutting era, something that some countries have done more than once. This is a device that often impairs or even nullifies the effects of tariff reductions by making it easier to export and harder to import. Other countries have resorted at will to this device, and continue to do so. During the 1962–67 period alone over 20 devaluations took place. This was during the Kennedy Round negotiations or immediately after.

TRANSFORMATION OF OUR TRADE: TECHNOLOGICAL DEVELOPMENTS

Meantime the whole complexion of our world trade has changed since the Trade Program was launched. The post-War world trading community has undergone a veritable transformation. We are no longer in the world of the 1930's or even the 1950's. American technology and methods of production have been widely adopted by foreign countries. Natural advantages enjoyed by some other countries have virtually vanished, evicted by technology and chemical advancement. The most common among such natural advantages that come to mind are plantation rubber and silk. Many other items have been affected profoundly. The law of comparative advantage, the free-trade cornerstone, is hardly recognizable today because of technological incursions that have become international in scope, and, further, because the world is full of controlled economies that have little regard for theory.

Since World War II foreign productivity has been greatly boosted while foreign wages, though moving sharply upward, have lagged behind our own levels.

In response to these and other changes the composition or mix of our imports has shifted heavily from a preponderance of fully manufactured goods. This could have been expected since finished goods contain more man-hours of cheap labor than do raw products. Therefore there is more saving in buying them and a greater competitive advantage in selling them within this country. About two-thirds of our imports consist of finished goods today.

FOREIGN COMPETITIVE ADVANTAGE RESIDING IN LOW WAGES

Because of the rise in foreign productivity and the lag in foreign wages our industries find it ever more difficult to compete. While we still lead the world in output per man-hour in our plants, our lead in many instances is no longer wide enough to overcome the foeign labor-cost advantage. If we are 50% or 100% more productive per man-hour but pay wages are 2½ to 5 times as high or even higher than our competitors our higher efficiency can no longer be relied on to even the score. We are at a competitive disadvantage.

RISE IN FOREIGN PRODUCTIVITY

Little wonder that our private commerce in merchandise is in a serious adverse state of balance. The cry therefore is for greater efficiency. Unfortunately greater efficiency means more output per man-hour or fewer workers in terms of output. The danger of cumulative unemployment stares the imperative of greater efficiency in the face; but there is another obstacle: foreign producers can also increase their man-hour output, as they have demonstrated quite well in recent years by actual performances. Therefore if we increase our output per man-hour while our foreign competitors do the same we will be left with a net dividend of added unemployment.

With the transformation in our trade just mentioned we might expect many of our industries to fall behind in the import-export operations; and they have indeed fallen behind and the end is not yet.

OUR NARROW EXPORT SURPLUS

With the exception of machinery, including aircraft, computers and special purpose machine tools, plus chemicals (principally raw materials or semi-manufactured) our exports of other manufactured products are nearly all in a serious deficit position, a deficit that has been growing rapidly. This is true even under the present method of computing our trade balance, wherein we value imports at their foreign value instead of what they cost us, landed in our ports of entry, or c.i.f. The exports also include AID and governmentally assisted exports. Therefore the export deficit in "Other Manufactures," which in Census classification means manufactured goods other than machinery and transport equipment, would be even greater that they appear in our official statistics if we corrected our statistics.

EXTENT OF TRADE DEFICITS

When our deficit in competitive minerals, such as petroleum and lead and zinc are included, plus imports of competing agricultural products, such as fruits and vegetables, fishery products, meats, etc., the surplus that we enjoy in the export of machinery and chemicals is swamped.

An important factor in this equation is that employment in the deficit manufacturing industries is approximately 2 million higher than in the combined machinery and chemical group.

Also, in the machinery group our surplus has been narrowing alarmingly. For example, from 1965–69 our exports of machinery, exclusive of transport equipment rose only 46.2% while imports rose 154% or more than three times as rapidly.

We do enjoy an export balance in coal in the magnitude of half a billion dollars; but infortunately this competitive status was achieved by such strides in efficiency that the industry's employment dropped by two-thirds or some 350,000 workers, and left us with the problem of Appalachia. Should all our industries that suffer from import competition displace workers in proportion to the experience in coal, we would be swamped with unemployment to the point of a national disaster.

Our rising machinery exports have, of course, been a side-effect of our booming foreign direct investment in plants and other installations abroad. This growth cannot be expected to continue because the needed machinery for these purposes is becoming more readuly available abroad.

EFFECT OF DIRECT FOREIGN INVESTMENTS

Beyond that, as we produce more and more abroad, we will be supplying more and more of the foreign markets from within. Also our companies will use our foreign production as sources of exports to third markets rather than from the United States. In some instances our companies sell in our own market products they are producing in ever greater volume abroad.

OUR IMPORT-VULNERABLE INDUSTRIES

The products in which we are lagging in our trade are numerous, and they will no doubt be joined by others. We hear of textiles and footwear, household electronics, steel and apparel, but numerous other products are suffering to an equal or higher degree: fishery products, fruits and vegetables, such as tomatoes, strawberries, mushrooms, olives, citrus fruits, potatoes; lamb, dairy products (saved by import quotas), honey, mink, oysters, crabmeat. flowers, glass, glassware pottery, bicylces, clocks and watches, typewriters, sewing machines, toys, athletic goods, rubber and plastic manufactures, handbags, umbrellas, nails, screws, nuts an bolts, handtools, optical goods, plywood, cameras, muscial instruments, phonographs records and players, sound recorders, etc.

FAILURE OF A REMEDY FOR INJURY

It was long a favorite response to say that if our industries suffered serious injury there was a sure and prompt remedy in recourse to the Escape Clause. That was not only the case; the very words were cynical. From 1962 to 1969 not a single remedy was granted in a list of over 20 applications to the Tariff Commission.* Before that only about 10% of those applying for a remedy were granted some relief.

It is now recognized that the 1962 Trade Expansion Act was too stringently drawn. The Administration bill provides some relaxation but not enough. It places too much emphasis on adjustment assistance. This represents a surrender to the view that imports should be awarded a priority over domestic industry and workers. It was based on the untenable ground that inability of American industry to compete with imports resulted from relative inefficiency.

NEED OF A NEW APPROACH

Import ceilings and import quotas

Over 20 years of experience with the Escape Clause approach as a remedy for injury from imports and eight years with Adjustment Assistance leaves us totally unconvinced that a mere relaxation of the criteria of injury as embodied in the Administration bill (H.R. 14807) or the Mills bill (H.R. 16920) as its stands, would be of much help in slowing the rapid capture of our market by imports, particularly in consumer goods. Several industries are in danger of virtual extinction from imports, and others are coming into the danger zone. Footwear, vegetables, and fruits (tomatoes, strawberries, etc.) bicycle parts, athletic goods, are examples of products that are very hard pressed. Already watches, typewriters, sewing machines, radio receivers, binoculars, fishery products are quite far gone and can hardly be restored to a healthy state—and certaninly not under the present tariff levels.

A few industries have been saved from destruction by quotas, such as petroleum, cotton textiles, dairying, sugar, possibly steel; wheat and cotton-growing.

Merchant Marine as an example

Our merchant shipping and shipbuilding have barely survived even under the Federal subsidy granted them, which is designed to equalize the cost of production and operation here and abroad. Without the subsidy American ships would be off the seas entirely except under foreign flags. There would be no employment of American merchant seamen and except for naval vessel construction our shipyards would be idle. It had been thought quite erroneously that the expansion of trade under the freer trade program would stimulate our merchant marine; instead while our trade expanded several times over, American flag ships carried a smaller and smaller share. Such an example should have some real meaning for our trade policy.

ASP (American selling price)

The chemical industry, which is the principal beneficiary of ASP is held up as a horrible example, apparently because the industry has had a remarkable growth and enjoys a handsome export surplus. Instead of crediting ASP with a welcome assist to one industry it is to be condemned for having produced such handsome fruit.

In view of the state of the other manufacturing industries, other than machinery, perhaps an extension of ASP to some of them would work wonders.

This recalls to mind the reported reply of President Lincoln to those who complained of General Grant's drinking. The President replied he would like to know what brand of whiskey General Grant favored, so that he could prescribe the same brand to his other generals.

Share of market

Experience of our trade with import competition has demonstrated conclusively that with our tariff reduced to a mere stubble, our industries are exposed to more than gradual erosion from imports; they are exposed to loss of participation in market growth and then to progressive loss of their customary share of the market. We cannot accept this style of retreat before the import invasion without consenting to disaster.

*At the end of 1969 three unions were granted adjustment assistance.

Other countries can and will understand our acts of self-preservation if these are explained in understandable terms instead of our spokesmen's bemoaning our reversal of a policy that has more than exhausted such goods as it initially contained. Other countries will understand our doing what is necessary to avoid the cumulative unemployment that will come from unimpeded imports because, for appreciation of our actions, they need only look at themselves for examples in their own actions of the past, such as devaluation of currencies, imposition of emergency duties, laying of special taxes, rebates for exports, etc.

Tariff substitutes

The tariff may be regarded as beyond resurrection these days, practically speaking. However, the problem to which it was addressed has not gone away. Therefore a substitute is needed.

We feel that ceilings on imports of products offer the most suitable device (1) to prevent imports from galloping roughshod through our market and disrupting production and employment, and (2) to offer imports a fair share of our market without creating a straitjacket. If imports are allowed to grow in proportion to our domestic consumption, and if they have already penetrated ten percent or more, in some instances considerably more, it is not unreasonable to keep them from exploiting their low-cost advantage beyond the already achieved share of our market, which in some cases is over 25% or even more than 40% or 50%.

In order to ring the sharing-of-the-market principle into practice, we would suggest adding the import-ceiling proposal as contained in the Fair International Trade bill which has been introduced by upward of 65 House Members, to H.R. 16920, the Mills bill.

We feel that man-made and woolen textiles and footwear are entitled to a restriction of imports as proposed in the Mills bill but we feel strongly that it would be discriminatory to single out these products for special attention while there are other products that are equally or more sorely afflicted. We feel further that the general provisions of H.R. 16920 would not provide these other products with a remedy on a par with the special treatment of textiles and footwear, unless the ceiling features of the Fair International Trade bill bere incorporated into H.R. 16920. This procedure would provide an alternate third remedy equally to all industries that could qualify beyond the two remedies now in existence and retained in the Mills bill which is to say Adjustment Assistance and the Escape Clause.

The ceiling provision could be meshed with H.R. 16920 without causing a distortion of its provisions. It would merely offer the industries other than textiles and footwear an alternative choice of remedy, not mandatory but optional.

Such an integration of the two bills would represent the best defense against the destruction of additional industries by low-cost imports and would have our full support. We urge that this third remedy, the ceiling approach with its market-sharing feature, be adopted by the Committee.

Items 806.30 and 807.00

We support the repeal of these items of the Tariff Schedules of the United States, as proposed in H.R. 14188 with respect to Item 807.00. Item 806.30 should be included.

Once more we have an example in our merchant marine. American-owned ships can escape the American wage standards by registering under foreign flags. How far, it may be asked, has this escape hatch been utilized? The answer is "Very far indeed." Today the tonnage of American-owned foreign flag tonnage exceeds that of all the merchant ships operating under the American flag! The latter carry less than 6% of our total foreign trade, whereas 50% would be an equitable share. The experience with the severe loss of shipping should provide us with an idea of how far foreign manufacturing activities might be carried under the special benefits of Items 806.30 and 807.00.

The establishment of plants in foreign countries with the specific purpose of gaining the advantage of low wages and tariff relief is to outflank our minimum wage laws, and can only lead to unemployment, just as foreign flag vessels kill jobs for our merchant marine.

If the practice expands it can only embitter our international relations in time. The longer it continues the greater will become the vested interests and the greater the friction produced by inevitable corrective efforts.

Mr. STRACKBEIN. H.R. 18970, the bill before you——

The CHAIRMAN. Incidentally, Mr. Strackbein, we are now officially—starting at 2:30—back in business. The Senate adjourned before two today so we can now officially hear you and the Government is willing to pay our expenses to hear your testimony. (Laughter.)

Mr. STRACKBEIN. I am delighted to hear that.

We are in support of H.R. 18970. However, I believe, that several modifications and clarifications would be desirable.

While the bill would greatly improve the availability of remedy for serious injury, it nevertheless places some difficulties in the path of the applicants.

1. The mathematical formula prescribed by the so-called trigger mechanism will exclude some industries that are suffering from deep import penetration of the market. This fact would not exclude them from a remedy as is, I think, supposed by some people, but the remedy would, perhaps, be less assured and possibly less satisfactory.

We would recommend also that the share of the market supplied by imports should not be required to grow 3 or 5 percent in the most recent 2 years if the market penetration had already reached 20 percent or higher.

From the concept of a share of the market increase a shift to an absolute increase in terms of simple percentage as distinguished from percentage points could remove this inequity. This is to say, that instead of having a 3- or 5-percentage points of a share of the market after the level of 20 percent had already been reached, if a simple percentage were substituted, I think it would be more equitable and it would not be so likely to exclude a number of industries that have a deeper penetration than the 15-percent level.

Some industries have been reporting 50 or 60 or even higher percent penetration.

2. The Presidential discretion in rejecting a remedy by citing the national interest should be hedged with a requirement that the President spell out to the Congress the aspects of the national interest that would be jeopardized should he proclaim an import quota, a tariff increase or other remedy. Such a requirement would avoid relinquishing the congressional responsibility in the premises.

3. The requirement of proving that imported goods are offered for sale at prices substantially below those of their domestic counterparts, and that the foreign unit labor costs are substantially below those of the competing domestic industry would impose an impossible burden in some instances. The evidence is sometimes not available in explicit terms. It should be enough to require that the best available evidence be produced, and an industry or labor group should not be penalized by the nonexistence of specific statistics or the inadequacy of such statistics, if serious injury were proved to the satisfaction of the Tariff Commission by means of the other required evidence.

Foreign unit labor costs cannot in some instances be ascertained, and except as evidenced by unit values of import invoices obtained by dividing total value by total quantity. Sometimes even that is not possible, as in imported units varying in terms of size, weight, dimensions, quantity, materials, and so forth.

Department of Labor statistics on foreign wages and productivity are not sufficiently refined in most instances to supply the proof of lower foreign unit labor costs.

Our support of the bill is founded on the intolerable encroachment of imports on many domestic industries and their workers and the need for a reasonable remedy to save these industries and the jobs provided by them.

On the whole, our industries are pitched against foreign producers who are advantaged competitively by relatively low wages and fast rising productivity per man-hour.

While many foreign countries have adopted the American system of mass production, they have not raised their wages sufficiently to build an adequate purchasing power at home to absorb the output. They, therefore, look to the American market as the absorbent agency to liquidate what would otherwise become a surplus. They seem to overlook the fact that mass production requires mass purchasing power to keep the production wheels turning.

Several objections are leveled at the bill by opponents. One of the most common is that import quotas will raise prices.

I offer for the record at this point, Mr. Chairman, two pieces of evidence which trace the prices of products on which we do have import quotas. The evidence is overwhelming that import quotas have not caused higher prices. In most instances, the prices of the products concerned have risen distinctly less than the general price level. The principal purpose of quotas has been to prevent prices of products from falling to such low levels as would spell ruin to the domestic producer, but that might still be profitable to foreign exporters because of their lower costs.

I have two short documents here, Mr. Chairman. One is called "Import Quotas and Prices—A Review," and then a second one, "Quotas and Prices—A Second Look."* This second one was prepared in response to some observations made by the United States-Japan Trade Council.

Another cry is that of foreign retaliation. I offer for the record a classical example, fully documented, on this point. There was no retaliation despite widely expressed apprehension. The rules of the General Agreement on Tariffs and Trade, if they were worth anything, will prevent retaliation. Compensation would indeed be in order, according to orderly procedure, but not jungle warfare.

The supporters of GATT, that is, the General Agreement on Tariffs and Trade, should be ready to demonstrate the usefulness of that organization in providing for orderly international trade.

As an appendix, Mr. Chairman, attention should be called to the foreign trade statistics published by the Department of Commerce. That practice was the subject of a hearing before your committee on Joint Resolution 115 4 years ago.

On that occasion the Department of Commerce promised to publish statistics in conformity with the resolution. To this day they have not complied except in the most grudging and virtually concealed manner, A provision in this bill calling for statistics that will truly reflect the competitive standing of this country in the world would, perhaps, remedy the mischievous defect in the present statistical practice.

On the matter of retaliation, I would like to offer for the record another short piece of three or four pages.

The CHAIRMAN. Without objection, it is agreed that they will be printed in the record at the end of your statement.

Mr. STRACKBEIN. And on the point of trade statistics, I have another brief study which is called Trade Statistics—A Continuing Distortion, which I would like to offer for the record.

The CHAIRMAN. I would suggest that be printed also.

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*See pages 131 and 134.

Mr. STRACKBEIN. That concludes my statement, Mr. Chairman, but I would like to advert for just a moment to the statement made this morning by the Senator from Arkansas, Mr. Fulbright, who seemed to harbor the illusion that agricultural exports provided most of our so-called surplus trade.

Now, I have the greatest friendship for our agriculture. It is basic to our economy and to our country, but it is not the correct notion that our agricultural exports represent the principal source of what is called our export surplus.

I have a few statistics which show that in 1967, 1968, and 1969, our agricultural exports were in the magnitude of some $6 billion to $6.7 billion, whereas the 1969 they dropped to $5.7 billion.

These figures include anywhere from $1 billion to $1.5 billion of governmentally assisted exports and, therefore, do not represent a test of our competitive standing in the world.

These exports, of course, are those that go out under AID, food for peace, and certain highly subsidized agricultural projects, such as raw cotton, wheat, and wheat flour. So that on the basis of not even bringing in the CIF or landed case, net exports of farm products stripped of the governmentally assisted exports would have left us with no surplus at all or at least one of a very, very narrow margin.

If we put the imports on a CIF basis, which is what the goods cost us laid down in this country, then we would have been running a deficit in agricultural trade in these latter few years.

The CHAIRMAN. Well, Mr. Strackbein, I want to just agree with you 1 million percent.

I think these are misleading and official fraudulent statistics, and I assume that we get them because the State Department does not want this program measured out in the open where people can see what is actually going on.

While you were testifying here, I just added up where we really stand in our balance of trade compared to these officially fraudulent statistics.

For example, this is a chart which I have already put in the record* showing where we stand when you allow for the fact that we are not getting a penny for the giveaways.

Mr. STRACKBEIN. Yes.

The CHAIRMAN. And yet they insist on putting that down as though we were being paid what it cost us to buy all these farm commodities and give them away.

Then when you add the cost of freight and insurance to your imports, and take into account whose ship is hauling those exports, you have to make a 10-percent adjustment with regard to imports, and that is the way the International Monetary Fund does it.

Mr. STRACKBEIN. Yes.

The CHAIRMAN. Which is not trying to favor one side or the other, just trying to calculate the overall situation, make those adjustments, and just on the chart that I asked to be placed in the record, in the years 1965 to 1969, the official misstated facts reflect us as having a favorable balance of trade of $15.5 billion.

Now, just add up the final column of that chart that I had placed in the record, and see what you add up to, and then you find out we did not have a plus of $15.5 billion, we had a minus of $10.6 billion, $25 billion difference.

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*See p.95.

Mr. STRACKBEIN. Yes, sir.

The CHAIRMAN. In other words, we did not make $15 billion, we lost $10 billion. So that now when you make those simple adjustments that we are not getting paid for, the stuff we are giving away——

Mr. STRACKBEIN. Yes, sir.

The CHAIRMAN (continuing). And the stuff we are buying from abroad includes the cost of ocean freight, make those simple adjustments, and you find that, no, sir, you did not make the $15 billion, you lost $10.6 billion.

I do not know how long it is going to take our State Department to adjust itself to the facts of life or to start telling the truth, and I do not know how long it is going to take the Department of Commerce to start publishing correct figures.

I guess the reason that pressure is brought to bear upon them to do this kind of misrepresentation to the American people is the hope that they can continue to justify this foolish policy until we are bankrupt and forced to change it. Not by the fact of any wisdom in the Congress or by wisdom at the executive level, but because nobody else will take our money, it won't be any good.

Now, at that point we cannot do them any more favors, can we?

Mr. STRACKBEIN. No, sir.

The CHAIRMAN. Our money is no good and they would not take it, so they won't trade with us after that, except if we can find some way then to change our way of doing business and do the kinds of things you are advocating now.

Mr. STRACKBEIN. Mr. Chairman, I have on repeated occasions called attention to these deceptive trade statistics and, as I said in my statement, the Department of Commerce did promise 4 years ago they would carry out the general intent of that Senate joint resolution upon which this committee held 2 days of hearing, and they have complied by showing the, what they call the commercial exports, which is to say stripping the exports of these governmentally assisted quantities, values, and then, on the other hand, calculating the imports on the c.i.f. basis by adding only some 6.3 percent.

Now, this latter low percentage, I do not think can be justified. The Tariff Commission made an examination of this subject at that time, and they came out with very close to 10 percent and, as you say, the International Monetary Fund regularly employs the 10 percent level as a means of bringing our import statistics into a comparative level with those of other countries, because nearly all other countries do use the c.i.f. basis of valuing their imports. The result has been that we have lived in a fool's paradise, so to speak, believing that we are competitive in the world market when, as a matter of fact, we are not.

Now, in a few segments we are, but this very surplus has been used, was used, by former President Kennedy in arguing that this country must be competitive because if we were not competitive how could we possibly have an export balance of $5 billion.

Well, now, if the facts had been known, it would have been very clear that the so-called surplus of $5 billion did not reflect our competitive position in the world because it contained elements of publicly subsidized and grants in aid, and so forth, on the one hand, and undervaluing our imports, on the other.

This morning, Mr. McNeill maintained that if our imports were to be valued on a c.i.f. bais, then our exports should be valued on the basis of their f.o.b. exports, plus the cost of freight to ship them overseas.

Actually, the difference, of course, comes in the transportation, as you have said. But this country's shipping carries only between 5 and 6 percent of our total export and import trade under the American flag so that nearly all of the freight payments, and so forth, that show up in the balance-of-payments statistics, where they are shown, are against us.

So the way to value our exports and imports is to show what the goods cost us laid down in this country, that is, c.i.f; and what we get for the goods that we sell. We get the price f.o.b. port of shipment.

Our exporter does not get the price or the value of the goods landed overseas. He gets the value of the invoice which is usually f.o.b. port of shipment. So, therefore, the correct way—and the other countries do it—is to value our imports c.i.f. and our exports f.o.b. port of shipment.

The CHAIRMAN. As you say, so long as we are shipping the goods in our bottoms and our ships, then we do not need to count the ocean freight against United States.

Mr. STRACKBEIN. That is right.

The CHAIRMAN. But if it is going in the other fellow's bottom, as is true with regard to about 92 percent in terms of tonnage, then it is the foreign seamen rather than the American seamen drawing the paycheck, and you have to credit that to the other man rather than to us, and so if you take those into account, it works out at about the fashion you and I are speaking about.

Now, again, to see who tends to be telling the truth, as you suggested, look at our balance of payments.

While you were testifying, I added that up, 1965 through 1969, that would tend to show whether we are making $15 billion or losing $10 billion, and look at those figures.

You add them up—and I have put this chart in the record—this is something both of us can agree on.

Mr. STRACKBEIN. Yes.

The CHAIRMAN. And I am told that the correct, the best basis, to look at would be your liquidity basis, and on that basis, 1965 through 1969, we had a balance-of-payments deficit of $13.5 billion. Well now, doesn't that tend to show you whether we made the $10 billion, made $15 billion, or lost $10 billion, so that confirms your position, not theirs.

Mr. STRACKEIN. Yes, sir.

The CHAIRMAN. I will ask that the chart to which I made reference be placed in the record at this point.*

You are familiar with those figures, I am sure?

Mr. STRACKBEIN. Yes.

I would like to point out also that in those instances where we do have export surplus as officially reported by the Department of Commerce, these are principally concentrated in two or three segments of our economy, machinery and transport equipment being by far the leading items.

We do have a very considerable export surplus in our machinery exports, and most of this, or a great part of this has been stimulated,

*The chart referred to appears at page 96.

of course, by our investments overseas, where the plants that we build over there are equipped with American machinery and equipment.

Before long they will be, or they are already, manufacturing abroad and serving those foreign markets from within rather than our shipping in the form of exports from here over to those markets, so we are really working against our own export outlets in this fashion.

The CHAIRMAN. Let me ask you one further thing, Mr. Strackbein. The people whom you represent would hopefully be represented by our State Department and by the special trade representative, in trying to obtain agreements that would try to offset some of our disastrous balance of payments and our unfavorable balance of trade.

Now, can you explain to me how our negotiators, speaking for the State Department and claiming to speak for the President, can negotiate a trade agreement favorable to us when they are confronted with their own deliberately misleading figures that have been published all over the country, to which we hear witnesses testify before this committee, where they are saying that we have a big surplus when, in fact, we have a deficit. How can they proceed to fight for the American position to try to offset this unfavorable balance of trade when they are confronted with their own published statistics which say that we have a favorable balance?

Mr. STRACKBEIN. Well, apparently, they were more concerned with making the policy of freer trade look good than they were concerned about the welfare of the American economy, American producers, and American labor.

The CHAIRMAN. More concerned with trying to convey a picture to the American people that the situation is good when it is bad than they were with getting the job done, it would appear.

Mr. STRACKBEIN. Yes.

The CHAIRMAN. Any further questions, gentlemen?

Thank you very much, Mr. Strackbein.

(The documents previously referred to by Mr. Strackbein and a subsequent letter to the committee follow. Hearing continues on page 145.)

IMPORT QUOTAS AND PRICES—A REVIEW BY O. R. STRACKBEIN, PRESIDENT, THE NATION-WIDE COMMITTEE ON IMPORT-EXPORT POLICY, JULY 6, 1970

A constant patter of comment tells us that import quotas will raise domestic prices of the products that are the subject of such quotas.

It should be possible to test the soundness of this unsubstantiated theory. To do so we should trace the wholesale price trends of products that are "protected" by import quotas compared with the price trend in general and the price on particular products that are not so "protected."

PETROLEUM

A favorite whipping boy is oil, or petroleum. An import quota was established in 1958, first on a voluntary basis, followed by a mandatory quota, effective March 1959.

The wholesale price of refined petroleum products expressed in an index form, where 1957–59 equals 100 had risen to only 100.3 in 1968 and 101.8 in 1969. A very recent rise carried the level to 104.2 in May 1970.

This compared with an index for all commodities, where 1957–59 again is 100, of 108.8 in 1968, 113.0 in 1969 and 116.8 for May 1970.

"All commodities," of course, include those on which we have import quotas. Therefore it will be desirable to compare the refined petroleum price level with that of other products that are not subject to an import quota. If we select another fuel, namely coal, which has no import quota and should therefore not be free to move upward in price because it is not "protected," we find a sharp contrast. The wholesale price index had reached 107.1 in 1968, rose to 116.2 in 1969 and zoomed to 146.9 in May 1970.

Surely if there were an import quota on coal, the quota would be blamed for this runaway price. Obviously other factors were at work.

We find, in other words, that the wholesale price of refined petroleum increased distinctly less than wholesale prices of all commodities and very much less than the price of its competing energy fuel, namely, coal. (For confirmation, see Survey of Current Business, U.S. Department of Commerce, June 1970, p. S–8.)

COTTON TEXTILES

Another product that is the subject of an import quota or its equivalent is cotton textiles. An arrangement was made with Japan alone, effective January 1, 1957, whereby that country restricted its cotton textile exports to this country. This arrangement was superseded October 1, 1961 with the so-called Long-Term Arrangement negotiated under GATT. This arrangement covered some 30 countries and about 90% of our total cotton textile imports.

The wholesale price of cotton products (1957–59 equaling 100) was 105.2 in 1968. In 1969 it remained at 105.2 and in May 1970 stood at 105.8.

Once more we encounter a very moderate price rise compared with the general commodity wholesale price-level, which, as we saw, had risen to 116.8 in May 1970. (Reference: same, p. S–9.)

Wool products, which are *not* under quota restrictions, had an index level of 103.7 in 1968, compared with 105.2 for cotton products or only 1.5 below cotton products. The index rose to 104.6 in 1969 but fell to 103.8 by May 1970. It thus stood only 0.1 higher in May 1970 than in 1968. In the case of cotton products the increase from 1968 to May 1970 was only 0.6. Thus there was little to choose between the wholesale price movement in cotton and woolen products. Yet the one was under an import quota or its equivalent while the other was not.

In the case of man-made fiber textile products there was a decline in wholesale prices since 1957–59, accounted for by increased productivity. The index stood at 90.8 in 1968 and moved lower to 89.5 in May 1970.

The downward trend of man-made fiber textile products has been of long-standing. Measured on the 1947–59 base, as compared with the 1957–59 base as used here, the wholesale price in 1959 had already declined to 81.1. This was before imports reached a significant volume. Thus the further price decline on the 1957–59 base to 89.5 in 1970 merely represented a continuation of the cost reduction process that had already dropped prices in the decade of 1949–59 by nearly 20%. (Survey of Current Business, October 1961, p. S–8.)

There is nothing in this record to show that the price of cotton textiles rose as a result of the import limitation. In any event the price increase through May 1970 was comparatively modest, lagging distinctly behind the general commodity wholesale price index.

In a pamphlet recently issued by the United States-Japan Trade Council it is asserted (p. 10) that "Textile Quotas Would Have Slight Benefit but Very High Cost."

"In sum," it says, "proposed textile quotas would be enormously costly to the United States.

"Quotes would accelerate inflation, raising clothing prices to consumers.

"They would boomerang against U.S. export sales and harm the economies of port cities," etc.

Against this cry of alarm, the wholesale price trend of cotton textiles of the past ten years while these products have been under import limitation, stands as a complete rebuttal.

SUGAR

Yet another product that is under import quota control is sugar. This quota has been in effect antedating World War II.

In 1955 the retail price of sugar was 10.4¢ per lb. Ten years later (1965) the price was 11.8¢. In 1968 the price was 12.5¢. In 1969 it was 12.7¢ and in April 1970 it was 13.4¢. In 15 years the retail price increased only 28.8%. (Statistical Abstract of the U.S., 1969, Table 512, p. 350; and Survey of Current Business, June 1970, p. S–29.) Compare this increase in retail sugar prices since 1955 with the all-consumer price increase of 34.6% on the 1957–59 base, a period during which all food prices rose 32.4%—also a period during which public transportation cost rose 66.6%, medical care 63.6%. Keeping in mind that 1955, the base of our retail sugar price, antedated the index base of 1957–59 by several years, it is clear that the consumer paid distinctly less for sugar in terms of price increase than he paid for consumer goods in general, or for food in general, and much less than for transportation and medical care which were not pinched in point of suppply by an import quota.

It follows that the sugar quota also cannot be used to demonstrate that import quotas raise prices unreasonably, or even as much as the rise in other prices.

WHEAT

Wheat is under a severe import restriction that permits less than 1% of domestic production to be imported, in pursuance of a limitation imposed under Sec. 22 of the Agricultural Adjustment Act in 1941.

The price of wheat (hard winter, No. 2, Kansas City) has fallen quite sharply in recent years. The price per bushel was $2.22 in 1950. In 1955 the price was $2.25. By 1960 the price had dropped to $2.00. In 1968 it had sunk to $1.46 per bushel, and in May 1970 it was $1.53.

Corn is not the subject of an import quota. The 1950 price (yellow, No. 2 Chicago), was $1.50 per bushel. In 1955 the price was down to $1.41. The decline, as in the case of wheat, continued. In 1960 it stood at $1.15; in 1968 it was $1.14 and in May 1970 it was $1.30 (yellow, No. 3, Chicago. The difference from No. 2 is very slight, as note, that in 1968 the price of No. 2 in Chicago was $1.14 while that of No. 3 was $1.11). (See Statistical Abstract of the U.S., 1969, Table 504, p. 343; and Survey of Current Business, June 1970, p. S-27.)

Comparing the price trend in wheat with that in corn we find that from 1950 to May 1970 the price of wheat dropped 31% while that of corn dropped only 13%. Yet it was wheat and not corn that was "protected" by an import quota. The wheat price dropped over twice as much in the 20 years as the price of corn.

Since 1960 the price of wheat dropped from $2.00 per bushel to $1.53 in May 1970, a decline of 23%. The price of corn, by contrast, rose from $1.15 per bushel in 1960 to $1.30 in May 1970. This was an increase of 13%. Thus while the price of the "protected" wheat dropped 23%. that of corn which was not under an import quota, rose 13%.

In comparison with other commodities the price of both wheat and corn has dropped while the other prices rose rather sharply, especially in recent years.

RAW COTTON

The price of raw cotton has also declined. The decline was greater than that of wheat and corn, dropping from some 36¢ per lb. to some 22¢, or by more than 38%. Yet raw cotton imports are limited under Sec. 22 of the Agricultural Adjustment Act to a quantity less than 5% of domestic production. (Statistical Abstract of the U. S., 1969, Table 505, p. 344.) (There is some difficulty in reconciling the Statistical Abstract prices with those in the Survey of Current Business, but the discrepancy is not sufficient to destroy the value of the comparisons).

DAIRY PRODUCTS

With a base of 1957–59 equaling 100, the wholesale price index of dairy products stood at 94.0 in 1955, at 105.0 in 1960. In recent years the price rose to 118.5 in 1966, to 127.7 in 1968 and on to 135.4 in May 1970. This was an increase of 29% since 1960, and compares with an increase since 1960 of 18.6% in wholesale price of "Farm Products, Foods and Feeds," which, of course, includes grains, on which the price, as we have seen, dropped considerably.

Dairy products enjoy an import limitation under Sec. 22 of the Agricultural Adjustment Act, and the price increase has outpaced that of other farm products, as mentioned, but did not outpace wholesale prices of many other products. Dairying has declined quite sharply per capita. Milk produced on farms was less than 1% higher in 1968 than in 1950, despite the considerable increase in population. The number of cows and heifers kept for milk declined by more than 40%. Unquestionably these factors have influenced the price of dairy products much more than the import quota.

The wholesale price of agricultural machinery and equipment on an index base of 100 for 1957–59 rose to 137.4 by May 1970. There is no import quota on this machinery and equipment. Moreover, agricultural implements are duty free! If imports exert such a salutary effect on prices the effect must have failed in this instance.

CONCLUSION

The foregoing recitation can leave little doubt that import quotas have not led to higher prices; indeed, quite the opposite. With the exception of dairy products, with respect to other powerful factors, such as the public acceptance of oleomargarine, played a large part, the prices on products that are "protected" by import quotas have lagged distinctly behind average prices and far behind prices on some other products that were under no import quota limitation.

The cry that the imposition of import quotas would be costly to consumers is unfounded, and those who continue to raise the cry are guilty of misleading the public.

QUOTAS AND PRICES—A SECOND LOOK BY O. R. STRACKBEIN, PRESIDENT, THE NATION-WIDE COMMITTEE ON IMPORT-EXPORT POLICY, AUGUST 17, 1970

Because of some questions raised about the coverage of products that were not included in a previous review of the subject Import Quotas and Prices—A Review, dated July 8, 1970, issued by this office, a second look, is desirable to dispel any doubts about the validity of the conclusions reached in that review.

The United States-Japan Trade Council, specifically, challenged the Review in a 13-page Reply. In the Reply the Council mentions Meat, Steel and Peanuts as important products that were not in our Review. The allegation is correct. They were not included.

However, meat is not the subject of an import quota. It is under a ceiling, established in 1964, that would trigger a quota if imports should breach the ceiling. The only time when such a breach was imminent, which was very recently, the ceiling was lifted slightly to permit more imports.

It may, of course, be argued with some validity that the ceiling has operated as an import quota without invoking the actual administrative burden of an outright quota.

An answer on meat prices is therefore in order.

MEAT PRICES—WHOLESALE

It is true that meat prices have moved upwards since 1964, the year in which the ceiling legislation was passed. The U.S. Department of Agriculture, Statistical Reporting Service, keeps an account of prices on cattle meat, hogs and sheep.

The 1964 average price of beef was $18 per 100 lbs. In June 1970 the price was $28 representing an increase of 55%. The table below shows the price trend from 1964:

BEEF PRICES

	Dollars per 100 pounds		Dollars per 100 pounds
Year:		1970:	
1964	18.00	January	26.20
1965	19.90	February	27.20
1966	22.20	March	28.80
1967	22.30	April	28.60
1968	23.40	May	27.90
1969	26.20	June	28.00

This record of beef prices may be compared with that of hogs (pork):

HOG PRICES

	Dollars per 100 pounds		Dollars per 100 pounds
Year:		1970:	
1964	14.80	January	26.30
1965	20.60	February	27.40
1966	22.80	March	25.60
1967	18.90	April	23.80
1968	18.60	May	22.90
1969	22.20	June	23.20

From these tables, to repeat, we find that beef prices rose from $18 per 100 lbs. in 1964 to $28 in June 1970, an increase of $10 or 55%. We find also that pork prices rose from $14.80 per 100 lbs. in 1964 to $23.20 in June 1970, after having reached a peak of $27.40 in February 1970. The rise from 1964 to June 1970 was $8.40 per 100 lbs., which is to say, 56.7%, or a shade more than the price of beef.

However, at the peak, which was $28.80 for beef in March 1970, and $27.40 for pork in February, beef had risen 60% since 1964 while pork had risen 85% compared with 1964.

Which of the two meat products, beef or pork, it might be asked, was under an import restriction? According to the inflationary theory of import quotas it must have been pork, since the price rose higher than did the price of beef. Yet, it was beef and not pork that was and is under such a restriction.

Thus, while beef prices did rise more than the general wholesale price level and more than other farm products in general, the rise was not as great as that on its companion product, pork, which had no import restriction.

STEEL PRICES

In the case of steel an international arrangement was concluded toward the end of 1968 under which the principal foreign suppliers of this country agreed to limit their exports to the United States. The arrangement took effect at the beginning of 1969.

The item was not included in our Review because the time elapsed since January 1969 is too brief to draw final conclusions.

Nevertheless since the United States-Japan Trade Council raised the question a response is in order.

According to the Survey of Current Business of July 1970, the wholesale iron and steel price index, where 1957–59 equals 100, stood at 105.6 in 1968, or the year before the export restriction by other countries took effect. In June 1970, the index had moved to 120.2 This was a rise of 14.61 points or 13.9%.

The index for all commodities had risen during the 1957–59 period to 117. Thus the wholesale prices of iron and steel exceeded the rise since 1957–59 by 3 percentage points or 2½%. This is not a serious rush ahead of the general price level, especially when compared with the rise in nonferrous metal prices which jumped from a base of 125.1 in 1968 to 155.0 in June 1970. Among the metals that made up these rising prices were nickel, copper, aluminum, lead. The composite increase was 25%.

Also, the wholesale price of coal far outstripped the price of steel, rising from a base of 107.1 in 1968 to 152.8 in 1970. Coal, as it happens, is an important raw material used in the production of steel.

Yet neither nonferrous metals nor coal have import restrictions in effect.

The price of iron and steel may be double-checked by the price of finished carbon steel. The average price for 1968 was 8.73¢ per lb. By May 1970, the price had risen to 9.74¢ per lb. This was an increase of 11.57%, compared with the rise of 13.9% in the composite price of iron and steel, quoted above. (See Survey of Current Business, U.S. Department of Commerce, July 1970, p. S-32, bottom of page.)

There is nothing in the price trend of iron and steel since 1968 that would support the inflationary charge leveled against import quotas, especially when other metal prices which were not under a quota rose appreciably more sharply, and also coal.

It is reliably reported that prices of iron and steel also rose more sharply in West Germany, Japan, Britain and France than in this country. According to a public statement made by the Chairman of the American Iron and Steel Institute, Mr. George A. Stinson, market prices of steel in West Germany have risen 19% since the inception of the "Voluntary Limitation Program" went into effect; 18% in the United Kingdom, 13% in France and from 15% to 50% in Japan, depending on the product. These increases all outran the price increase of steel in this country.

PEANUT PRICES

Another product that was not mentioned in the REVIEW above referred to was peanuts. The reason for the omission was that the item is not in the item listing provided by the SURVEY OF CURRENT BUSINESS which was the source of most of the other price data tabulated nor up to date in the STATISTICAL ABSTRACT.

However, the Department of Agriculture does report the season average prices of peanuts annually; and these are available through 1969, but not for 1970.

Peanuts are under price support and an import quota limitation. This quota was established in 1953 under Section 22 of the Agricultural Adjustment Act.

The 1953 "season average price" was 11.1¢ per lb. By 1969 this average price had risen to 12.2¢ per lb., or almost exactly 10%. Yet by the 1957–59 price index base currently in use, the wholesale price of all commodities had risen 17% by June 1970. The wholesale price of farm products in general on the 1957–59 base was 111.3 in June 1970.

Since 1953 antedates the 1957–59 price base by several years it is clear that the price of peanuts ran behind the general price level by a very considerable margin, and also behind farm prices in general.

It cannot be properly asserted therefore that the omission of peanuts from the previous REVIEW answered by the United States-Japan Trade Council changed the conclusion from what it would have been had this farm product been included.

The experience with peanuts as with the price trend on all the other products that are under import quotas covered under the original REVIEW except dairy products, as noted in that REVIEW itself, supports the conclusion that import quotas cannot be saddled with the objection that they are inflationary.

FURTHER CONCLUSION

What might indeed be said is that one of the prime purposes of our import quota or similar limitation on imports is to prevent a drop in prices to a level so low that it would be disastrous to domestic producers but that might still return a profit to a foreign exporters to this country because of their lower costs.

To say that it is the purpose of quotas to raise prices would be to say that to date nearly all our quotas have failed of their purpose because most of them have not succeeded in keeping up with the general price level, as demonstrated in our previous REVIEW. They could then apparently be discarded with safety; but that is not the essential purpose of the quota.

However, that the floor under prices might give way because of imports if the quotas were removed, and thus produce an untenable price level for domestic producers, be their product textiles, sugar, petroleum, wheat, peanuts, meat or steel, represents the motivation for such quotas as a preventive measure, rather than a windfall or the possibility of gouging the consumer.

The need for such quotas does not rise in this country but in the foreign countries that enjoy a competitive advantage over us, provided by their lower wages. They need foreign markets because they do not pay their workers enough to buy the increased output of their farms and industries attributable to highly improved technology; and look to us to provide the purchasing power that results from our higher wages.

Foreign Trade Retaliation—A Case in Point by O. R. Strackbein, President, The Nation-Wide Committee on Import-Export Policy, August 4, 1970

A rising chorus of warnings about fearful retaliation against our exports should the trade bill before Congress provide for import quotas, assaults us from all sides. A veritable trade war, it is warned, will erupt should this country adopt import quotas.

If we impose import quotas other countries will jump to their trade weapons, and foreign trade will be thrown into a bristling exchange of reprisals to the woeful loss of all concerned.

The warnings from import and export interests in this country are echoed by threats from abroad as if this country were about to commit the unforgivable sin of rescuing our industries from irreparable loss from imports and our labor from climbing unemployment.

One cry is that other countries will throw up barriers against our exports and thus dry up our markets abroad. Such alarms are freely bandied about, but no hard supporting facts are provided. It is only fair to say that such facts are hard to come by.

However, one clear example is available.

In 1954 the Tariff Commission recommended to President Eisenhower a duty increase on watches as a result of a finding of a serious injury of the watch industry in an Escape Clause action.

An outcry of retaliation was sent up by the Maryland Congressional delegation, joined by an assortment of liberal trade supporters. Maryland cried out because Switzerland, which is the principal source of our watch imports, regularly buys much Maryland tobacco.

The Swiss, it was warned, would be sure to retaliate against imports of Maryland tobacco should the President approve the recommended increase in duties on Swiss watches. Nevertheless the President did increase the watch duty.

A fortuitous fact makes it possible to test the validity of the warnings and threats of Swiss retaliation. Our Department of Agriculture maintains a record of tobacco exports by type of tobacco and by country of destination. What do the export statistics show? They are as follows:

EXPORTS OF TOBACCO, TYPE 32 (MARYLAND TOBACCO)

Year	Country of destination	Pounds	Value
1954	Switzerland	5,817,000	$4,790,000
1955	do	4,976,000	4,151,000
1956	do	7,395,000	5,868,000
1957	do	7,594,000	6,080,000
1958	do	6,452,000	5,260,000
1960	do	6,163,000	5,416,000
1962	do	6,756,000	6,088,000
1964	do	6,897,000	6,467,000

From this record of exports of Maryland tobacco the *failure* of any retaliatory effort that may have been, but probably was not, attempted by Switzerland stands fully confirmed. While there was a significant decline of our tobacco exports to that country in 1955, the first year after the increase in duty on Swiss watches, the considerable rise in exports in the following year merely confirms the vacuity of the claims of reprisal. Thereafter a broken but distinctly upward trend was resumed through the following decade.

Moreover, our total exports of all merchandise to Switzerland did not suffer, as the following short table shows:

EXPORTS TO SWITZERLAND

1954	$154,385,000
1955	163,594,000
1956	221,350,000
1957	238,562,000
1958	164,064,000
1959	188,242,000
1960	252,661,000
1961	271,973,000

The shouts of warnings and threats of retaliation whenever imposition of a quota or an increase in tariff is proposed, in any case, are easily exaggerated, especially where trade is carried on as private enterprise rather than by State trading.

For example, Swiss tobacco import merchants make profits from tobacco imports. A maximum of importation is in their interest. They do not manufacture Swiss watches. If the latter stand to suffer a setback in their export of watches, It is their problem, not that of the tobacco importers. If the watch manufacturers had sought government restrictions on tobacco imports to retaliate against U.S. action, the Swiss tobacco importers would have opposed the effort, since it would have reduced their own business. Only if trading is a State function, as in totalitarian countries, is retaliation a ready weapon to use, and even then it may not be convenient or profitable. When, however, other private interests than the one clamoring for retaliation would find their toes stepped on, retaliation is more likely to be blocked by politics within the country. Thus, while the hue and cry of threatened retailation is easily raised, it is not so easily carried into effect. The teeth may be bared menacingly, but the bite is not so sure to follow.

A distinction should, in any case, be drawn between retaliation, on the one hand, and compensation, as provided for in GATT (General Agreement on Tariffs and Trade), on the other. Compensation may be agreed to ahead of time or after a barrier has been imposed. Such compensation supposedly will follow only after due process in the form of orderly procedure and is not in the form of reprisal. It becomes a matter of negotiation. One of the very purposes of GATT was to establish a compensatory mechanism in lieu of retaliation by roughly conforming the compensation to the damage and no more.

The objective was to bring order into trade relations among the nations. Under this principle reparation is made through compensation but its magnitude is to be measured by the damage done; not by an ill-tempered mood of reprisal. Those who now threaten retaliation are in effect enemies of GATT, disavowing its objectives.

This country has, indeed, extended and received compensation in a number of instances over a period of years under GATT.

All of which is to say that all the gnashing of teeth and showing of fangs are mostly acts to serve ulterior ends, and represent the flouting of GATT.

TRADE STATISTICS—A CONTINUING DISTORTION BY O. R. STRACKBEIN, PRESIDENT, THE NATION-WIDE COMMITTEE ON IMPORT-EXPORT POLICY, JULY 10, 1969

The Department of Commerce continues to issue trade statistics that give the public a false impression of this country's standing in foreign trade. According to the official statistics issued by that Department a few days ago we continue to enjoy an export surplus, although it is a mere shadow of its former dimensions.

The Department of Commerce does the public no favor by clinging to its misleading form of trade-balance reporting.

The fact is that in point of competitive trade we are running a serious deficit. For years we have incurred *balance of payments* deficits but have looked to our *trade balance* to offset in great part our debits in the other transactions. Now the bleak facts must be faced. We lost our trade surplus position several years ago. This fact has yet to be officially recognized.

The stubbornness exhibited by the Department of Commerce can be attributed principally to a desperate desire to prevent the facts of our trade policy from becoming public knowledge.

Public officials, virtually all the media of public communication, and those charged with the conduct of our foreign relations, have become so accustomed to singing the praises of the so-called reciprocal trade program that anything to the contrary is not acceptable to them. Therefore the truth must at all costs be suppressed, as it has been these past several years.

The chickens, however, are coming to roost in such great flocks that the reality of our very weak competitive position in the world will break through one day soon; and we will pay heavily for our refusal to face the facts in time.

A brief review of how our self-deception has been practiced will not of itself open the door to a correction but it may make it more difficult henceforth for the Department of Commerce to continue the scandalous and indefensible policy of using statistical reports to conceal and obfuscate the facts rather than serving the public with the true trade balance, however unpalatable this may be.

It has been the official practice of the Department of Commerce to issue monthly quarterly and annual reports on foreign trade sunny side up. By including in our exports the shipments made under Foreign Assistance, Food for Peace, and subsidized shipments of cotton and wheat, our total exports are made to look better than they should by $2½ to $3 billion per year. Yet such shipments did not reflect an ability to compete in foreign markets, nor did they represent trade in the true sense of the word. Private foreign trade flows only into markets in which we are competitive. Governmentally subsidized or financed sales are made regardless of our ability to compete. It is not a matter of trade at all, but of world politics.

Our *import* statistics, on their part, do not show what the imported goods actually cost us. Rather, they show what they cost on the other side of the water, leaving out ocean freight and insurance. Nearly all the leading trading nations of the world publish their import statistics on the basis of landed cost.

By clinging to our antiquated system of reporting imports our official statistics show our present annual level of imports at about $3 billion less than their landed cost.

Add the overvaluation of our exports to the undervaluation of our imports and we have a discrepancy in the magnitude of some $5 to $6 billion per year at our present trading level.

What has been and continues to be the purpose of such distorted trade statistics? One purpose has already been mentioned. It was to make our trade position look good, so that cheerful reports could be issued to the public.

What then was the genesis of that desire? It was to sustain the freer-trade philosophy that has so long beguiled our State Department and other blind followers of Adam Smith, and which serves the interests of importers and exporters. If our competitive position could be made to look good, the cry for further tariff reductions could be justified. Otherwise it would fall on deaf ears and would be questioned, as it should be.

Last but not least, our professional economists, nearly all of whom were spoon-fed the pap of free trade in our colleges and universities, could never admit that they had uncritically accepted ideas expounded by the British economists of the eighteenth and nineteenth centuries when free trade was good economic gospel for England. Nearly all our professional economists are old-style, free trade oriented and emotionally-bound expounders of a theory that is nowhere actually practiced, least of all in our domestic economy. The free market, which is the basis of free trade, was discarded in this country after the 1930 Depression beyond resurrection. Very inconsistently the supporters of regulation and control of the domestic economy support freer trade internationally. It is in such an atmosphere that the false trade statistics are condoned and defended.

In 1966 S. J. Res. 115 was introduced in the Senate with the purpose of bringing about a corrective modification in the manner of reporting our exports and imports, to the end that the true competitive status of this country in world markets would be reflected in at least one version of our balance-of-trade reports.

Hearings on the Resolution were held on August 31 and September 1, 1966 by the Committee on Finance of the Senate. As a result of the hearings and the appearance of representatives of the Department of Commerce the Resolution was not pursued upon assurances recieved by the Committee from that Department to the effect that the intent of the Resolution would be carried out voluntarily.

Now, nearly three years later, the Department continues to issue its trade statistics as before the hearings on the Resolution. Its regular monthly, quarterly and annual press releases on the balance of trade continue exactly as before. The only concession made in fulfillment of its promise is contained in a quarterly publication of a special set of tables in a monthly report known as FT 990 published by the Department of Commerce.

One of these two tables shows separately the exports of goods shipped under the Foreign Assistance Act and Public Law 480. So grudging, however, is this publication of the bare bones of the statistics that the resulting total for "commercial exports," i.e., stripped of these governmentally-originated shipments, is not shown. The user of the report, if he wishes to determine the net exports, must make his own calculations.

The other table purports to show imports enhanced by a multiplier described as bringing the f.o.b. imports to a c.i.f. basis. In order to provide this additional information a sampling test of imports was made. This resulted in a multiplier of 108.3 applied to bring the imports to a c.i.f. level. A separate column in the table in FT 990 does show the enlarged 1968 import total, rising from $33.114 billion to $35.86 billion, i.e., up 8.3%. (FT 990, Dec. '68). However, this 8.3% is itself a low factor, as will be shown later. Nevertheless later this low percentage was reduced to 6.9%.

The response of the Department has thus been deficient in three respects:

(1) The Report (FT 990) is not distributed to the public with benefit of a press release, such as regularly accompanies the issuance of the monthly, quarter and annual trade balances on the old basis. It is simply a report distributed to a small number of subscribers. So far as publicity on the trade balance calculable on the new basis is concerned, FT 990 might as well not exist.

(2) Another deficiency lies in the manner of the presentation in FT 990. To repeat, no new trade balance is shown to reflect the result of stripping exports down to private commercial transactions, and valuing imports on their landed value. Only the "makings" are shown. Users of the Report must make their own calculations if they wish to arrive at a trade balance that would really reflect the competitive performance of this country. By contrast, under the old method of reporting the purported surplus is regularly set forth in the press releases.

(3) The third objectionable feature of the report lies in the use of the low multipliers of 8.3% or 6.9%, as already related. The 8.3% enhancement factor, as already noted, was itself very low if it is compared with other measures. Now a 6.9% factor is substituted.

The Tariff Commission had already found a factor of 10% to bring the f.o.b. values to a c.i.f. basis. In its report of February 7, 1967 it made a comment indicating that the difference between c.i.f. and f.o.b. imports was indeed appreciably broader than the 10% found from its sampling of some 13,000 shipments for the year 1965. The report said (p. 1, third paragraph):

"The value used by most foreign countries for duty and statistical purposes includes not only freight and insurance charges, but additional costs (such as buying commissions), which are not ordinarily included in U.S. values. It is not feasible to collect reliable statistics on these additional costs on imports into the United States, *but they are known to range from an insignificant amount to as much as the charges for freight and insurance, or even more.*" (Emphasis added.)

The low percentage used by the Department of Commerce (i.e., either 8.3% or, now, 6.9%) is therefore of questionable validity toward bringing the c.i.f. and f.o.b. to a comparable basis with the statistics of other countries. Quite surely even the 10% found by the Tariff Commission is low in view of the "other charges" that its survey did not take into account, as stated in its report.

The 1968 trade balance would be affected appreciably (1) if the Department of Commerce's own statistics were used in casting a balance, and (2) still more if the Tariff Commission's 10% were applied and (3) yet more if the other charges indicated by the Tariff Commission were included.

(1) Using the Department's statistics as shown in unfinished form in FT 990 for March 1969, pp. IV and VII, the following trade balance would be obtained for the year 1968:

	In billions
Total exports, as officially reported	$34. 661
Less: Military aid	. 573
Less: AID shipments	*1. 200
Less: Public Law 480	1. 178

*Not given in FT 990 on the grounds of its not yet being available. Assuming AID to be at a level of the average of the 3 preceding years, a fair enough assumption, it would have been slightly over $1.200 billion in 1968.

If we assume that AID was at the level of $1.200 billion in 1968, we arrive at competitive commercial exports in that year of $31.710 billion or $2.951 billion less than the $34.661 billion publicized by the Department of Commerce.

1968 imports were estimated on a c.i.f. basis by the Department at $35.546 billion (FT 990, Mar. '69). This level was achieved by multiplying the official imports ($32.251 billion) by 106.9%. The enhancement was $2.294 billion.

Even on the basis of the Commerce Department's own calculations the surplus that was publicized to the country and to the world, i.e., one of $1.410 billion, would have become a deficit of *$3.83* billion if net exports were matched against c.i.f. imports (i.e., net exports of $31.710 billion compared with c.i.f. imports of $35.456 billion).

The discrepancy between the Department's publicized statistics and the present calculations based on FT 990 was therefore $5.246 billion (the $3.83 billion deficit plus the $1.410 billion surplus.)

(2) If the Tariff Commission's 10% factor were used, c.i.f. imports in 1968 would have been $36.576 billion. The deficit would then be found to be $4.866 billion in place of $3.83 billion as it was when the 6.9% factor was used. The difference between such a deficit and the surplus of $1.410 reported by the Department of Commerce would have been $6.276 billion.

Summarizing the foregoing for 1968:	*In billions*
Surplus as shown by Department of Commerce	$1. 410
Deficit if c.i.f. imports enhanced by 6.9% are compared with "net exports"	3. 836
Deficit if c.i.f. imports enhanced by 10% are compared with "net exports"	4. 866

With a deficit in competitive commercial trade at a magnitude of some $4 billion, compared with an officially reported surplus of $1.410 billion, the Department of Commerce's stance brings into question the quality of the Department's honesty.

The importance of the difference in the two sets of balances to considerations of foreign trade policy can hardly be exaggerated. If the United States is in a weak competitive position in international trade our trade policy should be determined by that fact rather than basing it on the assumption, as it has been, that we are in a strong competitive position in the world.

Statement of O. R. Strackbein, President, the Nation-Wide Committee on Import-Export Policy Before the Subcommittee on Foreign Economic Policy Joint Economic Committee, Washington, D.C., September 29, 1970

IMPORT ADJUSTMENT

The impact of imports on domestic producers naturally varies with the particular products concerned. No generalization would apply equally to all imports. In some instances imports are quite steady, supplying a rather stable share of the domestic market, causing little or no disruption of domestic production and employment. Other imports may fluctuate from year to year, responding to conditions of supply both here and abroad. Agricultural commodities fall most readily into this category.

The real concern centers around imports that succeed in capturing a rising share of the domestic market, such as has occurred in a number of instances during the past decade. In those instances several interests are at stake. Workers may lose their jobs, or employment may stagnate in the face of general expansion. Companies may experience reduced profits, find it difficult to plan production for the future, or may even be forced out of business. They may also face the need of installing more labor-saving equipment in order to reduce costs or avoid becoming noncompetitive.

It is often said by economists of the free-trade persuasion that import competition is necessary to assure industrial efficiency and progress. They compare the competition from imports to competition within our own country. They also minimize the rigors of adjustment to rising imports as if they were of a kind with efforts to meet the upsets of technological advancement at home. New discoveries and inventions, they say, also cause disruption in this country and call for readjustment. There is need to re-examine production, to shift to new lines of production, to retrain workers and generally to make painful adjustments to the new realities.

Our industries, they say, are constantly adjusting to new developments. Indeed, they say, it is this need to adjust, that has kept our industries flexible and responsive to new conditions.

The value of competition to industrial regeneration and avoidance of stagnation may be conceded without imputing the same virtue to import competition.

To serve as a healthy stimulus competition must meet at least two conditions. (1) The discrepancy in unit cost must not be so great that one competitor may still reap a profit while his rival, selling at the same level of prices, suffers a loss. (2) The road to mass production as the key to a mass market through lower prices must not be preempted by special nontechnical advantages, such as an excessively lower wage scale.

It is not always recognized that competition among American producers, especially manufacturers, is of a special variety. This special function of competition is traceable to the discovery by American enterprise of the value of mass production as the supplier of goods to a potential mass market. Mass production itself, proceeding from inventive genius and fueled by the profit motive, would have been doomed but for a vision that saw in rising wages, hand-in-hand with increasing productivity, the blossoming of mass consumption as the absorbent of mass production. The link between production and consumption was seen as the key to material abundance if the two could be made to go forward together.

Further, the difference between an elastic and an inelastic demand had also to be appreciated. It would be no industrial miracle, for example, to mass-produce salt, so long as salt was only a staple of the diet. Only so much would be consumed, no matter how low the price. Mass production as the key to mass consumption had to be selective: it needed to be pursued with respect to products for which the demand was elastic. Lower and lower prices must be met by a growing consumer demand supported by ever greater purchasing power.

The classical American example is the automobile, although there are others. The automobile had a potentially high popular demand because it offered a great improvement in the mobility of individual people, at greater speed, going from place to place without the need of laying costly but yet limited trackage.

At the outset the building of an automobile was an expensive undertaking. If only a few cars were built only a few persons could buy them because of the high cost. The riddle was how to achieve lower costs so that more people could buy them because of the lower prices. The vision of a jackpot provided the motivation.

As we look around today we see that the internal combustion automobile succeeded only too well. Someone had to take the risk of building more cars hoping that if he could offer them at a lower price enough additional buyers could be found to absorb the increased output. Henry Ford is generally credited with both the vision and the courage to take that course. He saw the linkage between wage levels and consumer purchasing power and instituted the $5 per day wage midst outcries and skepticism from all sides.

Yet his vision was clear. If technology would make possible the higher output per man it should be possible to strike a broader market as prices were brought still lower. This followed from the nature of the distribution of income. The mass market resided in those levels at which most of the income was centered. This would be the tens of millions of wage earners and salaried employees. A product that could be put within their reach—a product that would serve a universally useful purpose and for which the demand would therefore be elastic—such a product would enjoy a bonanza if the equation were solved, as indeed it was.

We come now to the other part of the contention that import competition performs the same service as domestic competition.

It is said that the displacement of the horse and buggy meant less immediate employment but that this disruption was not fatal. The new industry producing automobiles after a time employed more workers than were engaged in making the carriages, harnesses, etc. Unquestionably that is true.

However, to jump from that easily sustained fact to the conclusion that displacement of industries and their workers by imports is the same process, entitled to applause despite the temporary disruption, represents a malfunction of the processes of logic.

Some clarification is in order. Since World War II foreign industry in the industrially advanced countries opted for our system of mass production. We gladly helped with the technology. The war had done some of these countries a disguised favor, so to speak, of bombing out many of their antiquated plants. We supplied much of the capital needed for rebuilding. In a few years many up-to-date plants arose in Western Europe and Japan.

Unfortunately those countries did not adopt that part of the American equation that calls for broad consumer purchasing power based on higher wages. Therefore their production outruns their consumer purchasing power or threatens to do so. They need a foreign market for their surplus output, which could be sold at home if wages were raised sufficiently. They look instead to this country for an outlet.

This development confronts us in effect with the American productive system coming back upon us from abroad in the form of competition with one of the prime factors partially lacking, namely, high wages. This condition strikes many American producers with a withering handicap; and American labor with a bleak outlook for full employment.

We continue to enjoy "growth industries," but in very recent times we have been able to observe a disheartening process so far as labor is concerned. Radio and television may serve as a handy example. Radio did not displace another industry in this country. The workers it added were largely net additions to employment. Even though in very recent years Japanese producers struck our greatest mass market by offering sets at prices that would spell disaster to our producers, our industry nevertheless had been left free for several decades to produce and market radio sets; and the process did not halt until nearly all households had a radio set.

The television situation is a little different. The cost has not been brought to a low enough level to tap the ultimate mass market, in the form of multiple sets per family. Here the Japanese and others rob our industry, but more particularly our electrical workers, of the final employment possibilities in this field, while our capital is free to go to foreign sources for production.

While the automobile was replacing buggies the workers making the automobiles were employed in *this country*. When foreign television sets, because of their low cost, displaced American radios the workers making the television sets *are not employed here*. Consequently not only are our electronic workers displaced but what was a growth industry becomes a sick industry with no bright future to attract capital investment.

Import competition is thus seen to be of a different species from the domestic variety. In new growth industries early foreign competition, using our patents and their mass production, with low wages, may beat us to the mass market that in the past promised us employment-expanding growth. *Imports may thus despoil our accustomed market development and expansion.*

In the case of established industries, such as textiles, steel, footwear, etc., imports at low prices, instead of stimulating the domestic industry may have precisely the opposite effect, if the cost gap is wide. If the outlook for profit is bleak, capital will shun the industry. The outlook is then not one that attracts both capital and talented enterprisers.

I am moved to say that the liberal-trade economists have evidently not adequately weighed these aspects of foreign competition and their negative influence on industrial expansion of the type that also expands employment.

We have in this country an unforgettable example of what the effort to become or remain competitive may mean. This example is rich in its message to those who speak so glibly about what American industry should do in order to hold a competitive position. They simply prescribe higher efficiency as the remedy without considering the means by which greater efficiency may be achieved. There is only one real source of greater efficiency, and that is the labor force. Since employee compensation accounts for some 80% of total corporate costs it is the very heart of production costs. Nothing else approaches this factor in weight.

Very well, labor costs can best be reduced by reducing the number of man-hours required to produce a given quantity of output. This means displacing workers. A 20% reduction in the total workforce might make possibly, say, a 10% reduction in cost.

The example alluded to above is provided by the coal industry. Its very existence was threatened by competition from imported residual fuel oil, by natural gas and diesel oil which replaced coal in our railroads. It was a question of sharply reducing costs or extinction. The industry succeeded in becoming competitive, not only at home but abroad. Today, in fact, coal is in short supply.

If one industry could meet such a challenge, why not any or all other industries? The question is a natural one and can best be answered by reference to the cost of the process. The number of coal miners was reduced by nearly 75% from 1950 to 1965, or from about 480,000 to 140,000 representing a displacement of 340,000 workers. The result is best known by the name of Appalachia. The cost to the federal government has run into hundreds of millions of dollars and the cost in human misery has not yet been fully recorded.

How many such experiences could our economy tolerate? Should steel go through the same worker shake-out, if indeed the technology that would make it possible were on hand? Should the textile industry—an industry that with apparel employs over five times as many workers as were employed in the coal mines? Should the footwear industry be put through the same paces, or many smaller industries scattered through the whole country? The fisheries, vegetable growers, glass and glassware, tile, optical goods, bicycles, a variety of hardware, household appliances, etc. A number of industries have already yielded to imports and are mere shadows of their former selves: watches, typewriters, sewing machines, binoculars, fisheries, radio receivers, cameras, etc.

The problem of adjustment is beset with difficulties that are not readily visible. If show and textile workers are to be evicted by imports where are they to go? To the high-paying export industries, as Mr. Houthakker of the Council of Economic Advisers has suggested, i.e., the coal industry, the steel industry, the automobile industry or the aircraft industry, all of which are high-paying industries? A little reflection and look-about will tell us that these industries have troubles of their own. If only half the textile workers were displaced, in place of three-quarters as in coal, well over a million new openings must be found in other industries.

Would it perhaps not be better to regulate the flow of imports to keep them within reasonable bounds? In less than ten years shoe imports have captured about a third of our domestic market. Other industries are suffering a similar invasion.

The problem of adjustment would become a serious additional burden on the taxpayer and the attendant human misery would but add to present discontent.

It is obviously a false exercise in economic thought to apply the principles of classical economics to situations that bear but little relation to those assumed. The assumptions for free trade include free competition and free play *of all market forces*. During the past 35 years this country and the whole world has moved far afield from laissez-faire economics. We have indeed moved in the opposite direction of regulation and public control.

Why then does anyone insist that free international trade could produce anything but disruption and confusion in these premises? Free trade would simply upset the finest laid plans of our economic planners who undertake to prescribe for their domestic economies. Here would be one free force, unbridled, unleashed to break through, around, or over any controls established for domestic production, labor, agriculture, commerce and trade. We have wage controls, interest and money controls, taxes designed for social purposes, unemployment compensation, bank deposit insurance, farm output controls, many subsidies, etc. These are all interferences with the free market. If then we should open wide our seaward front we would soon compound our difficulties with contradictory and countervailing forces sufficient to sink the ship of state.

One more example must suffice as evidence of the unreality of the effort to inject classical economic theories onto the present-day economic scene. Our merchant marine offers an example as impressive as the coal industry.

Exposed as it is, without benefit of tariff or other competitive insulation, to foreign shipping, the maritime industry, with the exception of coastal vessels, would today be extinct. What is left of it, carrying less than 6% of all our imports and exports under the American flag, survives by the grant of federal subsidies. Should our commercial aviation not enjoy a virtual monopoly of the American market, it would unquestionably be in the same condition as our merchant marine, and for the same reason.

To say this is not to say that either the maritime or the aviation industry is inefficient. This indictment only conceals an unwillingness to face the facts. The prime fact looms high indeed. It is not seen for reasons of inconvenience. Admission of the gigantic fact would upset comfortable existing policies and honored theories.

The wage differential between this and other countries is wide, nonnegotiable and therefore persistent. This conclusion collides head on with economic theory, which in point of stubbornness is worthy of a tall monument.

Competition is *supposed* to bring unit wage costs, not wage rates, to a somewhat uniform level throughout the world, washing out wage and productivity differentials.

The only trouble with the theory is that it really has no chance in the world of economic controls and regulation. This is not the fault of the theory. It is bad fault in economists who reason *as if* the world permitted the theory to operate.

Maritime wages are *not* out of line with industrial wages in this country. Shipbuilding, of course, is not a mass-production operation and therefore lacks the advantage that many of our other industries enjoy, or did enjoy but are now losing because of the development of mass production in the countries.

In the case of relative merchant marine costs, here and abroad, both with respect to shipbuilding and ship operation, we are not dependent on guesswork. The federal government makes wage surveys here and overseas to determine cost differentials. This differential is a little over 100%.

Countering the belief that competition will equalize costs is the fact that this differential increased by approximately 10% in a recent decade. How can the differential persist in the light of economic theory? The answer is that we do not have free competition. If we did we would not have one ton of civilian ocean-going shipping.

We face a situation in international trade that is the result of our industrial development on one level alongside that of the remainder of the world. We pioneered mass production and stumbled onto the vision of the mass consumer market based on high wages. We were so far ahead of the rest of the world in productivity that our higher wages were in many cases no handicap. Now, however, with the establishment of mass production abroad and the consequent great rise in foreign productivity the wage differential looms as the stumbling block to free trade.

The processes of adjustment are too slow, too painful and too disruptive to permit imports to run wild and confront our industries with the option of opening up abroad or losing foreign markets. The option is a cruel one for our labor unless it wishes to emigrate; and is often reluctantly exercised by industries who would rather give employment on the domestic scene rather than abroad. With appropriate regulation of imports the problem could be greatly ameliorated by making the domestic scene more attractive.

THE NATION-WIDE COMMITTEE ON IMPORT-EXPORT POLICY,
Washington, D.C., October 12, 1970.

Hon. RUSSELL LONG,
Chairman, Finance Committee,
New Senate Office Building, Washington, D.C.

DEAR MR. LONG: In view of the impression prevailing in some circles to the effect that agricultural exports are preponderantly responsible for our trade "surplus" it will help to place these exports in their true perspective if we turn to the actual export-import statistics.

Attached is a table compiled from the Statistical Abstract of the United States, 1970, Table 948, p. 603, and U.S. Foreign Agricultural Trade by Commodities, June 1970, Supplement, p. 25.

In view of the false impression above referred to, I request that this letter and table be made a part of the printed record of the Hearings before your Committee on October 9 and 12.

Sincerely,

O. R. STRACKBEIN, *President.*

AGRICULTURAL TRADE BALANCE

[Amounts in billions]

	1965	1967	1968	1969
Total agricultural exports:				
Under governmental programs	$6.097	$6.771	$6.311	$5.740
Outside governmental programs	1.598	1.308	1.297	1.044
Commercial exports	4.499	5.463	5.014	4.696
Imports	4.087	4.453	5.024	4.931
Trade surplus or deficit:				
Total agricultural exports	6.097	6.771	6.311	5.740
Total agricultural imports	4.087	4.453	5.024	4.931
Apparent surplus	2.010	2.318	1.287	0.809
Surplus or deficit: Outside governmental programs:				
Total agricultural exports outside governmental programs	4.499	5.463	5.014	4.696
Total agricultural imports	4.087	4.453	5.024	4.931
Balance	.412	1.010	−.010	−.235
Total agricultural exports outside governmental programs	4.499	5.463	5.014	4.696
C.i.f. agricultural imports	4.495	4.898	5.526	5.424
Balance	.004	.565	−.512	−.728

The CHAIRMAN. The next witness is Mr. Nelson A. Stitt, Director of the United States-Japan Trade Council.

STATEMENT OF NELSON A. STITT, COUNCIL DIRECTOR, UNITED STATES-JAPAN TRADE COUNCIL, ACCOMPANIED BY DANIEL MINCHEW, LEGISLATIVE DIRECTOR

Mr. STITT. Mr. Chairman, I am Nelson Stitt, Director of the United States-Japan Trade Council, here to testify before you on the proposed trade legislation under consideration by the Finance Committee, with special reference to H.R. 18970, the proposed Trade Act of 1970, as reported by the Committee on Ways and Means of the House of Representatives, and presently before that body for action.

Our association consists of approximately—incidentally, at my left, I would like to introduce Mr. Daniel Minchew, our Legislative Director.

Our association consists of approximately 800 firms doing business in the United States and interested in promoting a growing healthy trade between the two countries.

Because our Council is largely financed by the Japan Trade Promotion Office of New York, an organization supported by the Government of Japan, it is registered under the Foreign Agents Registration Act as an agent of that foreign principal. The provisions of the Foreign Agents Registration Act require that, prior to the appearance before any congressional committee, the Council must submit to the committee its latest report to the Foreign Agents Registration Section of the Department of Justice and I herewith hand a copy of such report to you, Mr. Chairman.

I wish to emphasize that our views upon U.S. foreign economic policy do not represent those of the Government of Japan, nor of any group of Japanese businessmen. In other words we do not speak, officially or unofficially, for the Japanese Government. Our policy positions on trade matters are well known and have attracted the support of a large American membership. More than two-thirds of our members are American firms, as you can see from a perusal of our membership list.

Having been engaged professionally for the last 25 years in economic relationships between Japan and the United States, I want to comment at the outset on some of the things that have been said with respect to those relationships. Mr. Chairman, I feel that many unjustified and unfortunate assertions have been made. At this point I wish to stress just the following points:

First, the rapid and, indeed, astonishing increase in Japan's economic strength has created new circumstances which many in both nations do not yet fully appreciate. In the United States, we have not fully realized that Japan has moved from a state of dependence on the United States, as during the occupation and post-occupation periods, to a state of full independence and with a consciousness of national pride. These changes make the relationships of only a few years ago no longer possible.

On the other hand, I do believe that the Japanese are just beginning to grasp the implications of their new found power. As a consequence of this realization, they have proceeded to remove trade and financial restrictions at a pace which to them seems rapid but which has been disappointing to some in the United States.

Second, we must not let the frustration over the many problems that we have in the United States today vent itself against the Japanese simply because they are diligent workers and salesmen, because they are visible, and because they are foreign. Japanese goods are here in the United States because Americans want them and need them.

The problems that they give rise to are problems involving a balancing of U.S. interests, chiefly consumers, versus groups requesting protection. It is essential that we systematically and dispassionately explore those problems and not discuss imports as if they were solely an issue between the supplying nation and the United States.

Third, one might have the impression from some of the things being said that Japanese doors are closed to American goods and that there is no reciprocity at all. On the contrary, U.S. sales to Japan are increasing at a very satisfactory rate—about 10 percent from 1968 to 1969 and a phenomenal 46 percent for the first 7 months of 1970—and Japan still remains our best offshore customer.

Imports into the United States, not only from Japan, but also from many other countries, have sharply increased primarily because of the U.S. inflation. And, imports have served an essential purpose in helping to hold down prices which would otherwise have risen more than they have. Rather than there being any refusal on the part of Japan to remove import restrictions remaining from the days of authorized foreign exchange controls, liberalization is now the order of the day in Japan.

The expression "Internationalization," which is their word for it, is constantly found in the economic journals of Japan. At the same time, because trade is essential to Japan's very existence, these issues are a matter of great emotional concern to the Jananese people.

Japan's success story is not a success for Japan alone, but it is also a success for the postwar policy of the United States. With no country have our relationships proceeded more smoothly, with greater friendship, and with less friction than with Japan since 1945. This has special importance for the United States.

Japan is now the second economic power in the free world. This fact, plus her strategic location in the Far East, increases the significance of Japan as a customer and ally. Despite the current trade deficit, which will be sharply reduced this year, Japan is the largest offshore customer of the United States, assuring jobs and income for thousands of American workers.

During the course of recent weeks, I have been disturbed to hear Japan referred to in terms as disparaging as many of those used. It could have been concluded, after hearing some of these comments, that Japan was using its economic success to undermine the United States. Quite the contrary is true.

Japan, as should any good and loyal ally, has cooperated with the United States. For example, during the U.S. "gold crises" of several years ago, did Japan rush to convert its dollars into gold? No; although many dollars in Europe were converted into gold. Who at that time was cooperating with the United States?

At a time when the United States is attempting to reduce its presence in the Far East, which nation does the United States depend upon to provide additional peaceful leadership to counter the economic influence of Communist China? Mainly Japan. What country, of all the nations in the world, is increasing its aid to underdeveloped nations at the most rapid rate? Again, Japan.

Mr. Chairman, you now have before you proposed trade legislation which we believe is not, in large measure, in the best interest of the United States. While appearing before the Committee on Ways and Means on May 19, 1970, The Council spoke in support of H.R. 14870, the President's proposed "Trade Act of 1969" which, with some exceptions, was considered to be generally in the national interest.

The bill emerging from the House Ways and Means Committee, H.R. 18970, is a different matter entirely. Until now, there has been no opportunity for public discussion of that measure, which we consider a large step backward toward the economic nationalism reminiscent of the narrow and misguided trade philosophy unfortunately prevalent prior to 1934.

Certain of the proposed provisions do not conform with the General Agreement on Tariffs and Trade, of which the United States is a member. Their enactment could well lead to a "beggar thy neighbor" policy entirely contrary to the position of the United States as the outstanding exponent of a growing, freer and fairer international commerce intended to benefit all the nations involved. Because of the council's paramount interest, much of our comment will be devoted specifically to the effect of such legislation upon the trade relationship between the United States and Japan.

H.R. 18970

Title II of H.R. 18970 would impose mandatory quotas upon U.S. imports of manmade and woolen textile products, apparel and footwear from those countries which are unwilling to negotiate bilateral or multilateral restraints in these commodities. The bill provides for some exemptions, for example, market disruption. However, it would, if enacted, be in violation of article XIX of the GATT which requires proof of injury.

Senator TALMADGE. Would you yield?

Mr. STITT. Yes, sir.

Senator TALMADGE. You are also aware of the fact that Article XII of the Rules of the GATT provides:

"Notwithstanding the provisions of paragraph one of Article XI, any contracting party, in order to safeguard its external financial position and its balance of payments, may restrict the quantity or value of merchandise permitted to be imported subject to the provisions of the following paragraphs of this Article.

You are familiar with that, are you not?

Mr. STITT. Yes, sir.

Senator TALMADGE. Isn't it a fact that we have had a deficit in our balance of payments about 19 times in the last 21 years?

Mr. STITT. Yes, sir.

I must say, however, that that article of the GATT was intended during the postwar period to protect our neighbors abroad at a time when this Nation was, of course, the outstanding grantor of aid, if one may say, in helping to sustain Europe and the countries of Asia.

Senator TALMADGE. You are aware also of the fact that Japan now has import quotas on 98 different articles, are you not?

Mr. STITT. I am, sir.

I must say that of those 98 items, upon examination all but about 10 are of any great consequence to this country, sir. And I would go further and say that even if these were to be removed, it would cause little difference in the balance-of-trade position between the two countries.

Senator TALMADGE. How can you complain if the United States wants to impose quotas on textiles when you are a representative of a government that has quotas on 98 commodities?

Mr. STITT. Ninety-eight items under the Brussels nomenclature, sir. At the moment, to the best of my knowledge, Japan has no import restrictions upon textiles.

Senator BENNETT. Why should it? It produces more than it can consume.

Mr. STITT. That is true, Senator.

However, I believe we are discovering, Japan is discovering, that the other countries of the Far East are rapidly moving into the production of textiles.

Senator BENNETT. But as subsidiaries, usually under the control of Japanese companies that are using these other countries in part, at least, to supply textiles over and above their local capacity, and which the Japanese sell in the world market.

Mr. STITT. To the best of my knowledge, the bulk of textile imports into Japan are not financed by Japanese interests, neither are the bulk of textile imports into the United States from Japan from these other developed countries financed by Japanese interests.

Japanese interests, indeed, are moving to some of the other countries for the production of these products, but I do not think, at least so far, this matter has loomed large.

Senator TALMADGE. Mr. Stitt, will you yield at that point?

You are aware of the fact, I presume, that our unfavorable trade balance with Japan in calendar year 1969 was $1,426,500,000; are you not?

Mr. STITT. This is correct, Senator Talmadge.

Senator TALMADGE. You are further aware of the fact that the trade deficit on textiles alone; that is, textiles and clothing, was $1,340,100,000; are you not?

Mr. STITT. That figure escapes me.

Senator TALMADGE. Let me revise that question and strike that.

The deficit in textile trade for the United States with all countries in the world was $1,340,100,000. The textile deficit with Japan alone was $525,100,000. You are aware of that fact?

Mr. STITT. I am aware of that, sir.

Senator TALMADGE. You are aware of the fact for the first 6 months of this year, the deficit on trade with Japan on textiles and clothing was $323,100,000?

Mr. STITT. I have heard it, sir. I would like to point out at this time, Senator Talmadge, however, that last year while we did, the United States did, have a balance of trade deficit with Japan of approximately $1.4 billion, that this year our trade with Japan is increasing at a phenomenal pace. U.S. exports to Japan this year are proceeding at a rate 46 percent higher in the first 7 months of 1970, during that same period of last year.

Senator TALMADGE. Would you yield at that point?

Mr. STITT. Yes, sir.

Senator TALMADGE. You aware of the fact that the trade deficit on textiles with Japan is not improving but is worsening this year; are you not?

Mr. STITT. To some extent, sir, but at a very—in a declining magnitude,

Senator TALMADGE. Last year the textile trade deficit was $525 million. The first 6 months of this year it was $323 million, so if it continues at its present pace, it would be about $700 million for this year against $525 million last year.

Mr. STITT. My figures, Mr. Senator, are based not upon textiles alone. I believe in this entire area the problem of textiles has assumed a magnitude and has reached such bitterness that it is one of the major problems existent between the two nations today.

Senator TALMADGE. Of course, that is what this quota bill is directed at, the textiles, as you know, and I assume that is the reason you are up here fighting it.

Mr. STITT. It is certainly one of the reasons why our council is greatly interested in a healthy trade relationship between the two countries, it is one of the main reasons why I appear here today, sir.

The trade between Japan and the United States is certainly not one of textiles alone.

Senator TALMADGE. I do not blame you. If I represented the Japanese Government I would be up here opposing this bill, too.

What percentage of your funds do you get from the Government of Japan?

Mr. STITT. If you are speaking of our trade council, sir, in the neighborhood of approximately 95 percent.

Senator TALMADGE. I compliment you. You are fighting a good battle for the people who hired you, Mr. Stitt.

Mr. STITT. I would like to reiterate, sir, however, that the positions of our council do not represent the positions of the Japanese Government. That Government, in its wisdom, over the past 20 to 25 years has recognized the worth, I believe, of our views on trade policies and has supported them, as you know, to a considerable extent.

However, we are not dictated to by that Government.

Senator TALMADGE. You do not mean to say that you would come before this committee and present views contrary to your client that pays 95 percent of your dues, do you?

Mr. STITT. I certainly—the point I would like to make, sir, is that our views are supported in large measure by the Japanesse Government. That Government, being dependent on trade to such an extent that its very existence depends upon trade, does have such a great interest in trade that, indeed, it does support the free trade policies of our council.

However, I wish to make it entirely clear we certainly do not speak for that Government nor for any business or business organization in Japan. They support the policies we have supported.

Senator TALMADGE. They just pay you and you make your own decisions?

Mr. STITT. Our decisions are largely made by a professional staff with a great belief, sir, in the existence of growing world trade as a relief to world tensions and all the other problems that are in the world today.

May I continue, sir?

The CHAIRMAN. Would you, please, sir.

Mr. STITT. Furthermore, the consultative provisions of article XIX would entirely be ignored. That document presupposes diplomatic discussions prior to the invocation of mandatory limitations.

We strongly oppose mandatory U.S. quotas on imports of textile and apparel for the following reasons:

1. The U.S. textile and apparel industries have shown a healthy growth over the past decade in production, sales and profits, and new investment.
2. Employment in these industries, despite growing automation, has risen by about 300,000 between 1961 and 1969.
3. Textiles imports in 1969 represented only 8.5 percent of total U.S. consumption.
4. Restrictions on textile imports would result in inflationary price rises to American consumers, especially in the low-income brackets.
5. Mandatory import quotas on textiles would have a serious adverse effect on U.S. exports of manufactured products and agricultural commodities.
6. Textile quotas would have a severely damaging impact on the economies of many underdeveloped countries in Asia and Latin America.

We urge that the textile issue be examined on a sector-by-sector basis, rather than through comprehensive unilateral across-the-board, limitations.

For much the same reasons as those outlined above, we are opposed to the bill's provisions on nonrubber footwear. At the time of the hearings before the Ways and Means Committee, we welcomed statements from administration spokesmen to the effect that they did not find a case for such quotas. If injury can be established to individual firms in the industry, adjustment assistance would be in order.

Footwear is not a major issue in United States-Japan economic relations. Footwear imported from the Far East is almost all sold in mass distribution outlets at prices well below those of United States-made shoes, and they displace very few sales of higher priced shoes. Imports of lower priced footwear are shifting from Japan to the underdeveloped countries of Asia.

At this very time, the Tariff Commission has underway an escape clause investigation intended to consider the alleged need for import relief by the American footwear industry. The Commission is expected to determine, in an objective and dispassionate way, whether growing shoe imports are damaging any sectors of the American industry and whether, if such is the case, an appropriate remedy may be provided, whether it takes the form of import quotas, higher tariffs, or adjustment assistance. All this is in compliance with the law and in conformance with article XIX of the GATT. If the standards of the present law are regarded as too rigid, then this case can be brought to a conclusion under amended standards.

Let me make the Council's position clear. We think that the way to make a case for limitation of imports is through systematic Tariff Commission investigation under the Trade Expansion Act, and if those standards were written too tightly, then they can be changed. Quota legislation for footwear is obviously unnecessary because of the Tariff Commission's investigation, and if a basis is found, the President will have all the options before him to do whatever makes sense for sectors of that industry. He will be able to consider higher duties and not just quotas, a course that all economists consider preferable.

Such an investigation has never been conducted for textiles. Instead, comprehensive legislated quotas have been persistently sought. There was no justification, in the absence of a methodical nonpolitical examination of the impact of textile imports on the various sectors of the textiles and apparel industries, for the extraordinary step of going to other countries and demanding comprehensive export restraints.

Nevertheless, we regret that agreement was not reached with Japan on textiles, and hope that it may still be accomplished. This may seem contradictory, but our reason is simply that this issue has been allowed to generate far more friction between the two countries than is justified by its true importance.

Section 104 of H.R. 18970 would amend the national security provision of the Trade Expansion Act of 1962 by limiting the President's authority to act thereunder except by the imposition of import quotas. This would appear to be both unwise and unnecessary. The President's authority to protect the national security when threatened by imports should not be circumscribed. He should continue to possess flexibility to determine, on a case-by-case basis, whether tariffs, quotas, or tariff quotas would be most effective in protecting the national security.

It is generally believed that the escape clause provisions of the Trade Expansion Act were unduly restrictive, because of the conditions of "major cause" required between tariff concessions and increased imports and serious injury.

Senator Bennett. Mr. Chairman, I very rudely interrupted Mr. O'Brien when he talked for 20 minutes. This witness has talked for 20 minutes, so I feel honor-bound to interrupt him, too, and ask if we could not arrange to have the rest of his statement summarized in order that we can get through with the rest of the witnesses today.

The CHAIRMAN. I have carefully read your statement, sir.

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

Senator TALMADGE. May I ask a question of the witness before he leaves?

Senator BENNETT. I would like to ask one, too, but I think we should allow him to wind up his testimony.

The CHAIRMAN. What we are trying to do—we sometimes are compelled to do this—Mr. Stitt, is, to limit our witnesses to 10 minutes, and we hope that they would summarize their statements. We can read those statements faster than you can read them aloud, and so we hope the witnesses would confine themselves to 10 minutes, and then make themselves available for questions. We have read your statement and we will print the entire statement.

Senator BENNETT. Is he through?

The CHAIRMAN. If it is all right with you, we will print the remainder of your statement in the record, unless you want to just summarize what is left there.

Mr. STITT. Well, sir, I have two short sentences which I perhaps, would like to get in the record.

The CHAIRMAN. By all means, do so.

Mr. STITT. Senator Talmadge, have you a question?

Senator TALMADGE. Yes.

The CHAIRMAN. Please complete your statement in chief and then we will ask you questions.

Mr. STITT. Very well, sir.

In our view, the language of the trade bill proposed by the President, would have rectified this situation, as we supported it as being in consonance with both the letter and the spirit of the GATT. This cannot be said about the escape clause incorporated in H.R. 18970 which opens the door wide for import limitations of all kinds.

We take particular objection to those provisions providing for segmentation of an industry, whereby prosperous companies may obtain relief from import competition on specific product lines, despite the fact that these organizations are doing well in all other respects. We believe that the injury occasioned by product imports should be the "primary" cause of injury rather than merely a "substantial" cause.

Particularly unfortunate, in our view, is the so-called trigger mechanism set out in amended section 301(b)(5) of H.R. 18970 which would be activated when a majority of the Commission concludes that imports have caused injury. These provisions are much too complex to describe here. We believe that they are unnecessary and, indeed, unworkable. If injury is found by the Commission, surely the Commission staff should not be mired in complicated research, much of it requiring data not available, in order to determine whether only quotas will be invoked to protect the injured industry.

Whether quotas should be used rather than tariffs requires a judgment on all the facts, and cannot be based on any mathematical formula. Provisions such as these would simply protract investigation and waste valuable time and resources of Commission personnel as well as interested parties.

At this point, I would like to ask the chairman's permission to offer for the record a short paper setting out some technical comments on H.R. 18970. (See below.)

We believe that this bill, if enacted, could only encourage irritation abroad which in turn could only lead to diminutation in the flourishing export trade of the United States. The word "retaliation" is perhaps too strong but not entirely unjustified. We would strongly support U.S. initiatives toward a freeing of commerce, an objective in the mutual interest of all.

Finally, may I say, gentlemen, that despite all assertations to the contrary, Japan is moving in the right direction in its gradual dismantlement of import restrictions and foreign investment controls. Friendly persuasion by U.S. officials and private Japanese business leaders share a part of the credit for this. But there are intrinsic forces urging liberation within the Japanese economy. Japanese economic leaders have in mind the goal of catching up with Western economies, not only in total size, where Japan is already second in the free world, but also in per capita income, which is as yet only 16th in the world.

In trying to achieve this goal, it is necessary for Japan to shift resources from the sectors with lower productivity to those with higher productivity. The best way to realize this is further liberalization and introduction of competition from abroad. This inner need for liberalization within the economy assures a steady move toward further liberalization. Details of this liberalization process are set out in more detail in United States-Japan Economic Relations, fact sheet No. 3, a copy of which I herewith offer for the record.

In our view, now is not the time for the United States to erect new barriers of its own. Barriers to world trade are more easily erected than withdrawn, Mr. Chairman, and we would hope that the committee in its deliberations will bear this in mind.

(An attachment to Mr. Stitt's statement, fact sheet No. 3, follows:)

FACT SHEET NO. 3—UNITED STATES-JAPAN TRADE COUNCIL

RECENT JAPANESE ACTIONS TOWARDS LIBERALIZATION AND INTERNATIONAL COOPERATION IN UNITED STATES-JAPAN ECONOMIC RELATIONS

In the joint communique issued at the end of the meeting between Prime Minister Sato and President Nixon in November 1969, the President "reaffirmed the commitment of the United States to the principle of promoting free trade." The Prime Minister "indicated the intention of the Japanese government to accelerate rapidly the reduction of Japan's trade and capital restrictions. Specifically, he stated the intention of the Japanese government to remove Japan's residual import quota restrictions over a broad range of products by the end of 1971 and to make maximum efforts to accelerate the liberalization of the remaining items. He added that the Japanese government intends to make periodic reviews of its liberalization program with a view to implementing trade liberalization at a more accelerated pace than hitherto. The President and the Prime Minister agreed that their respective actions would further solidify the foundation of overall U.S.-Japan relations." The pledge given by Mr. Sato confirmed a cabinet decision taken one month previously. Since that decision was made, many liberalizing steps have been taken, and more have been announced. The target by the end of September 1971 is the elimination of all but 40 items from the list of residual import restrictions, and all but some 40 industrial categories from the list of industries restricted as to direct foreign investment. Other liberalization moves are explained in the following summary.

This report covers roughly the period from October 1969 to October 1971.

I. TRADE

A. Residual import restrictions

Total at the end of September 1969, 120 items.
Reductions within the past 12 months, 30 items.
Reductions scheduled within the coming 12 months, more than 50 items.
Scheduled total at the end of September 1971, maximum of 40 items.

About three-quarters of the remaining 40 items will be subitems and the rest will be full 4-digit items. All the full items will be non-industrial. The OECD Secretariat estimated in its recent report on Japan that the value of imports now under quota is about $1 billion, including $600 million in coal and $200 million in agricultural products.

COMPARISON WITH THE CURRENT RESTRICTIONS OF OTHER COUNTRIES

	Residual import restrictions	Restrictions aimed solely at Japan	Total (excluding duplications)
France	74	42	83
West Germany	39	22	40
Italy	20	46	63
Benelux	14	27	41
United Kingdom	25	44	(1)

[1] Not available

The United States currently has ten items under restriction sanctioned by the GATT waiver procedure and restricts 73 items from Japan through Japanese voluntary export restraints.

B. Other nontariff barriers

In October 1969, the United States submitted to Japan a list of 17 Japanese non-tariff barriers to U.S. exports and received in return a Japanese list of 21 U.S. non-tariff barriers to Japanese exports. Since then Japan has unilaterally removed some of its barriers.

1. Import deposit requirement.—Effective May 18, 1970, import deposits (cash, other eligible collateral or bank guarantees) under the import guarantee system have been suspended. Deposit rates had been one percent since November, 1969 and 5 percent before that.

2. Trade financing conditions.—On May 15, 1970, the preferential margin in interest rates for discounting export bills and short-term export credits was reduced across the board by one percent to a range of 5 to 5.5 percent, leaving only a one-percent gap remaining between the new rates and the bank rate.

3. Reduction of import financing costs.—The Bank of Japan introduced a new scheme on June 1, 1970, to supply yen funds to banks for import financing purposes at official discount and loan rates (which are lower than prevailing market interest rates). These funds will be in addition to the rediscount and loan ceilings stipulated by the Bank of Japan for each bank. The additional funds are limited to a specified percentage of the total import credits now accorded in foreign currency by foreign banks.

4. Expansion of quotas.—The government announced in April, 1970 its intention to allow goods under import quotas to enter freely up to a total of at least 2 percent of domestic consumption. Sausage, butter, cheese, fruit juices, fish, ham, bacon, chocolate, biscuits etc. are the items affected by the measure. This took effect from September 1970.

5. Shifting from automatic import quota (AIQ) to automatic approval (AA).—Fifty-five items were shifted on September 1, 1970 from AIQ to AA, reducing the AIQ total from 124 to 69. The U.S. has maintained that although there is no quantitative limit for AIQ, it is restricted because the requirement of reports for statistical purposes leaves the possibility of administrative intervention to curb imports. Japan maintains that AIQ is only a transitional legal status between import quotas and automatic approval of imports, requiring a monitoring of the trend of imports of the particular items involved. No item has ever moved back from AA status to the AIQ list.

Items under AIQ

September 1969	253
April 1970	124
September 1970	69

NOTE.—A majority of these are sub-items of BTN-4 digit headings.

6. Simplification of import procedures.—In August, 1969 the number of copies of import application forms was reduced from four to three and other simplifications were concurrently carried out.

C. Tariff barriers

1. *Acceleration of specific tariff cuts.*—Japan currently applies tariffs lower than the final tariff level agreed upon in the Kennedy Round on 41 full items and 38 sub-items. In addition, Japan has accelerated implementation of tariff cuts originally scheduled for January 1971 on 33 fuel items and 8 sub-items.

In May 1970 Japan carried out a tariff reduction on automobiles originally scheduled for January 1, 1972. The leading imports in this category, including VW, Opel (GM) and Capri (Ford), reduced prices by about $250. Seventy percent of the cars imported into Japan are small-sized. The May reduction cut the tariff on small-sized cars from 35 percent to 20 percent. A similar acceleration of tariff reductions on large-sized cars was carried out one year previously, from 28 percent to 17.5 percent. A further reduction to 10–11 percent, comparable to European tariffs, is now under study.

2. *General acceleration of tariff cuts by nine months.*—The Japanese government has announced that the final round of Kennedy Round tariff cuts would be accelerated from nine to twelve months. The final round was originally scheduled for January 1, 1972; it will now be carried out on either January 1, 1971 or April 1, 1971.

This step will reduce tariffs an average of 2.87 percentage points from 12.86 percent to 9.99 percent on all goods negotiated in the Kennedy Round. The Japanese tariff level on April 1971 will go down to 10.7 percent for manufactured goods. The comparable U.S. tariff level will be 9.9 percent after the Kennedy Round.

II. SERVICES AND OTHER EXCHANGES

A. Tourist travel allowance

Effective March 1, 1970, the ceiling on the amount of money an individual Japanese can take out on each foreign trip was increased from $700 to $1,000. Those attending conferences abroad or making a business trip can take out up to $2,000.

B. Other services

Also effective May 1, 1970, the limit on the amount of assets a foreigner can take back to his home country was raised. Remittances are now automatically approved up to $5,000 for copyrights and remuneration for lawyers and accountants and $10,000 for expenditures on exhibitions and fairs and certain other purposes.

III. CAPITAL TRANSACTIONS

A. Direct foreign investment from abroad

Three hundred and twenty-three industrial categories were additionally opened to foreign direct investment in September 1970, raising to 524 the total number of such industries. 447 industries are now open for automatic approval of 50 percent foreign participation, and 77 industries for 100 percent foreign participation. The liberalization of an industrial category in capital transactions means that an application for direct investment in that area will be given automatic approval, in contrast to others still subject to individual examination on their merits. The final round of liberalization will be carried out in the fall of 1971, leaving only 40 categories for individual screening. In the areas still subject to individual examination, procedures were radically speeded up last year.

Investments in the automobile industry will be liberalized in the spring of 1971, and the entire fourth round of liberalization has been advanced to the fall of 1971.

B. Portfolio investments

Effective September 1, 1970, foreign investors can acquire an aggregate total of up to 25 percent of the shares of existing Japanese firms. The ceiling was previously 20 percent. There are many companies for which higher ceilings are sanctioned. For instance, the ceiling for foreigners' acquisition of shares in Sony is 45 percent. For a limited number of industries (banking, public utilities etc.) the ceiling is 15 percent. Individual foreign investors can acquire up to 7 percent of the shares of existing firms.

C. Japanese investments abroad

1. The ceiling for automatic approval of loans and direct investments was raised to $200,000 in October 1969 and to $1,000,000 in September 1970.

2. Investment trust funds were allowed to invest in foreign securities, effective April 18, 1970, with the overall ceiling temporarily set at $100 million. Other types of corporate investors and individual investors are expected to be included in the near future.

IV. INTERNATIONAL ECONOMIC COOPERATION

A. Contributions to international aid organizations

1. *World Bank.*—Japan bought World Bank participatory certificates worth $160 million in late 1969, and followed up in 1970 with yen loans to the Bank worth $200 million. Japan has become a major source of new development capital for the Bank. Also about $200 million are committed for 1971.

2. *Asian Development Bank*—The Bank is shortly to float yen bonds in Tokyo, with the initial amount of the flotation pegged at $15 million.

B. Preferential tariff

The Japanese preferential tariff plan for the products of less developed countries is to start in April, 1971. It provides for only seven exempt items, one of the smallest list of exemptions among participating nations.

C. Policy commitment on foreign aid

1. In a recent international conference, the Finance Minister pledged that Japanese foreign aid would reach one percent of the GNP by 1975. He estimated that Japan will extend about $10 billion in aid during the next five years.

Japan's aid to LDC's:
1965: $601 million.
1969: $1,263 million.
1975: 1 percent of GNP (=$4 billion).

2. In a recent OECD meeting on aid policy, Japan supported the untying of aid. The current practice of tying aid to purchases from the donor country places severe limitations on the aid recipients.

Senator BENNETT. I have in my hand a publication of your organization which shows a breakdown of the American exports to Japan, and on the old theory that colonies export raw materials to the mother country to be manufactured, it is interesting to see what a high percentage of American exports to Japan are raw materials, and what a comparatively low percentage are finished products.

I would like to offer for the record, Mr. Chairman, with a suggestion that only the totals in the left-hand column be printed, without printing all the regional breakdowns of the types of products exported from the United States to Japan, I would like to offer these for the record at this point.

The CHAIRMAN. Without objection.

(The material referred to follows: Hearing continues on page 162.)

U.S. EXPORTS TO JAPAN, 1969

[In thousands of dollars]

Sec.—	SITC commodity	Amount
	Grand total[1]	3,461,842
	Food and live animals	552,729
001	Live animals	4,646
	Meat and meat preparations	35,610
011	Meat, fresh, chilled, or frozen	34,560
012	Meat, dried, salted, or smoked	570
013	Meat and meat preparations, n.e.s.	479
	Dairy products and eggs	2,188
022	Milk and cream	1,677
023	Butter and anhydrous milkfat	4
024	Cheese and curd	492
025	Eggs	14
	Fish and fish preparations	23,493
031	Fish, fresh	20,403
032	Fish and fish preparations, n.e.s.	3,090
	Cereals and cereal preparations	400,120
041	Wheat, unmilled	119,283
042	Rice	467
043	Barley, unmilled	402
044	Corn, unmilled	190,596
045	Cereals, unmilled, other	88,483
046	Meal and flour of wheat	347
047	Meal and flour of cereals, other	150
048	Cereal flour, starch preparation, other	394
	Fruit and vegetables	37,906
051	Fruits, fresh, and nuts	17,191
052	Dried fruit	6,691
053	Fruit preserved	6,766
054	Vegetables, fresh or frozen	6,739
055	Vegetables, preserved or prepared	518
	Sugar and honey	1,343
061	Sugar and honey	521
062	Sugar preparations, other	822

U.S. EXPORTS TO JAPAN, 1969—Continued

[In thousands of dollars]

Sec.—	SITC commodity	Amount
	Coffee, tea, cocoa, and spices	4,091
071	Coffee	3,197
072	Cocoa	57
073	Chocalte and preparations, n.e.s.	586
074	Tea and maté	42
075	Spices	211
081	Feeding-stuff for animals	34,972
	Miscellaneous food preparations	8,367
091	Lard, margarine, and shortening	3,560
099	Food preparations, n.e.s.	4,807
	Beverages and tobacco	49,483
	Beverages	388
111	Nonalcoholic beverages, n.e.s.	9
112	Alcoholic beverages	379
	Tobacco and manufactures	49,094
121	Tobacco, unmanufactured	44,662
122	Tobacco manufactures	4,431
	Crude materials, inedible, except fuels	924,478
	Hides, skins, and furs, undressed	55,239
211	Hides and skins, undressed	55,029
212	Furskins, undressed	210
221	Oilseeds	205,896
231	Crude rubber (including synthetic)	14,653
	Wood, lumber, and cork	276,063
241	Fuel wood, charcoal, and waste	1
242	Wood, rough	245,533
243	Wood, shaped	30,527
251	Pulp and waste paper	56,135
	Textile fibers and waste	57,532
261	Raw silk	24
262	Wool and animal hair	514
263	Cotton	54,874
265	Vegetable fibers, excluding cotton	16
266	Synthetic fibers	1,762
267	Waste materials	345
	Crude fertilizers and crude minerals	37,893
271	Fertilizers, crude	17,803
273	Stone, sand, and gravel	517
274	Sulfur and unroasted iron pyrites	12
275	Natural abrasives, industrial diamonds	9,625
276	Other crude minerals	9,937
	Metal ores and scrap	213,613
281	Iron ore and concentrates	35,528
282	Iron and steel scrap	126,842
283	Ores and concentrates of nonferrous base metals.	24,554
284	Nonferrous metal scrap	26,164
285	Platinum and concentrates	519
286	Uranium, thorium and concentrates.	5
	Crude animal and vegetable materials, n.e.s.	7,451
291	Crude animal materials, n.e.s.	2,581
292	Crude vegetable materials, n.e.s.	4,871
	Mineral fuels, lubricants, and related materials.	318,804
321	Coal, coke, and briquettes	244,401
	Petroleum and petroleum products	71,895
331	Petroleum, crude and partly refined.	1,825
332	Petroleum products	70,070
341	Gas, natural and manufactured	2,507
	Animal and vegetable oils and fats.	34,444
411	Animal oils and fats	30,635
	Fixed vegetable oils and fats	950
421	Fixed vegetable oils, soft	630
422	Other fixed vegetable oils	320
431	Animal and vegetable oils and fats, processed	2,860
	Chemicals	304,094
	Chemical elements and compounds	129,234
512	Organic chemicals	67,122
513	Elements, oxides, and halogen salts	10,057
514	Other inorganic chemicals	12,741
515	Radioactive and associated materials	39,308
521	Mineral tar and crude hydrocarbons	9,448
	Dyeing, tanning, and coloring materials, n.e.s.	10,991
531	Synthetic organic dyestuffs natural indigo	1,644
532	Dyeing and tanning extracts	158
533	Pigments, paints, varnishes, etc	9,186
541	Medicinal and pharmaceutical products	30,352
	Essential oils, perfume materials; preparations	15,586
551	Essential oils, perfume materials	6,643
553	Perfumery and cosmetics, other preparations	2,973
554	Soaps and cleansing preparations	5,969
561	Fertilizers, manufactured	12,352
571	Explosives and pyrotechnic products	697
581	Plastic materials and artificial resins	34,258
599	Chemical materials and products, n.e.s.	61,179
	Manufactured goods classified chiefly by material	222,541
	Leather manufactures, n.e.s. and dressed furs	1,079
611	Leather	758
612	Manufactures of leather, artificial or reconstituted	92
613	Furskins, tanned or dressed	230
	Rubber manufactures, n.e.s.	2,171
621	Materials of rubber	807
629	Articles of rubber, n.e.s.	1,362

U.S. EXPORTS TO JAPAN, 1969—Continued

[In thousands of dollars]

Sec.—	SITC commodity	Amount
	Wood and cork manufactures, excluding furniture	39,082
631	Veneers, plywood boards, etc., n.e.s.	37,944
632	Wood manufactures, n.e.s.	1,093
633	Cork manufactures	44
	Paper, paperboard and manufactures	9,599
641	Paper and paperboard	7,010
642	Articles of pulp, paper, or paperboard	2,594
	Textile yarn, fabrics and articles	12,207
651	Textile yarn and thread	2,357
652	Cotton fabrics, woven	3,200
653	Textile fabrics, woven, except cotton	2,710
654	Tulle, lace, findings, etc.	226
655	Special textile fabrics, related products	2,983
656	Madeup articles, textile, n.e.s.	491
657	Floor coverings, tapestries, etc.	242
	Nonmetallic mineral manufactures, n.e.s.	34,768
661	Lime, cement and fabricated building material	386
662	Clay and refractory construction material	2,122
633	Mineral manufactures, n.e.s.	2,880
664	Glass	8,172
665	Glassware	2,485
666	Pottery	21
667	Pearls and precious stones	18,706
	Iron and steel	7,241
671	Pig iron, sponge iron, ferro-alloys, etc.	1,638
672	Ingots and other primary forms	101
673	Bars, rods, angles, shapes, and sections	1,191
674	Universals, plates, and sheets	205
675	Hoop and strip	745
677	Iron and steel wire, excluding wire rod	103
678	Tubes, pipes, and fittings	2,733
679	Castings and forgings, unworked, n.e.s.	523
	Nonferrous metals	100,208
681	Silver and platinum	12,949
682	Copper	20,518
683	Nickel	2,998
684	Aluminum	57,922
685	Lead	315
686	Zinc	58
687	Tin	17
688	Uranium and thorium	2
689	Miscellaneous non-ferrous base metals	5,433
	Manufactures of metal, n.e.s.	16,186
691	Finished structural parts and structures, n.e.s.	913
692	Metal containers	418
693	Wire products and fencing grills	489
694	Nails, screws, nuts, bolts, etc.	1,829
695	Tools	6,282
696	Cutlery	394
697	Household equipment of base metals	1,371
698	Manufactures of metal, n.e.s.	4,496
	Machinery and transport equipment	811,075
	Machinery, nonelectric	476,641
711	Power generating machinery	97,955
712	Agricultural machinery and implements	17,652
714	Office machines	121,357
715	Metalworking machinery	55,996
717	Textile and leather machinery	9,505
718	Machines for special industries	32,857
719	Machinery and appliances and machine parts, n.e.s.	141,321
	Electric machinery, apparatus, and appliances	161,738
722	Electric power machinery and switchgear	27,160
723	Equipment for distributing electricity	1,247
724	Telecommunications apparatus	24,938
725	Domestic electrical equipment	2,867
726	Electromedical and radiological apparatus	2,150
729	Other electric machinery and apparatus	103,369
	Transport equipment	172,702
731	Railway vehicles	374
732	Road motor vehicles	29,851
733	Vehicles, other	1,626
734	Aircraft	140,501
735	Ships and boats	355
	Miscellaneous manufactured articles	200,111
812	Building fixtures	2,824
821	Furniture	575
831	Travel goods, handbags, etc.	564
	Clothing	2,312
841	Clothing, except fur clothing	2,301
842	Fur clothing	12
951	Footwear	510
	Precision instruments and goods	96,473
861	Scientific, medical, optical, etc., instruments	61,520
862	Photographic and cinematographic supplies	28,818
863	Developed cinematographic film	1,701
864	Watches and clocks	4,436
	Miscellaneous manufactured articles, n.e.s.	96,847
891	Musical instruments, sound recorders, parts	26,099
892	Printed matter	26,796
893	Articles of plastic, n.e.s.	3,791
894	Toys, games, sporting goods, etc.	24,624
895	Office and stationery supplies, n.e.s.	4,073
896	Works of art, antiques, etc.	2,238
897	Jewelry	1,516
899	Manufactured articles, n.e.s.	7,717
	Commodities and transactions not classified according to kind	8,893
931	Special transactions not classified by kind	8,451
941	Animals, "n.e.c.—Live," including zoo animals	443

SUPPLEMENTARY TABLE—U.S. EXPORTS TO JAPAN

[In millions of dollars, f.o.b.]

Sec.—	Customs districts	Exports to Japan (A) 1968	1969
	Grand total¹	2,923.5	3,461.8
	Region I—Boston, Mass.³	25.7	23.4
01	Portland, Maine	(²)	.1
02	St. Albans, Vt.	.1	.2
04	Boston, Mass	18.0	16.3
05	Providence, R.I.	4.7	2.2
06	Bridgeport, Conn	2.3	3.6
07	Ogdensburg, N.Y.	.5	.9
09	Buffalo, N.Y.	.2	.1
10	Region II—New York City	527.6	559.6
	Region III—Baltimore, Md	240.5	326.9
11	Philadelphia, Pa	33.1	36.7
13	Baltimore, Md	31.3	39.7
14	Norfolk, Va	176.0	250.2
54	Washington, D.C.	.1	.3
	Region IV—Miami, Fla	101.0	91.6
15	Wilmington, N.C.	42.5	37.8
16	Charleston, S.C.	9.1	7.7
17	Savannah, Ga	13.5	16.5
18	Tampa, Fla	31.3	24.6
49	San Juan, P.R.	1.8	3.1
52	Miami, Fla	2.8	1.9
	Region V—New Orleans, La	418.3	467.1
19	Mobile, Ala	51.2	40.1
20	New Orleans, La	367.1	427.0
	Region VI—Houston, Tex	269.1	180.9
21	Port Arthur, Tex	16.9	14.5
22	Galveston, Tex	122.7	86.9

Sec.—	Customs districts	Imports from Japan (A) 1968	1969
23	Laredo, Tex	4.7	4.3
24	El Paso, Tex	.1	0
53	Houston, Tex	124.7	75.2
	Region VII—Los Angeles, Calif.	322.2	401.4
25	San Diego, Calif	14.3	21.6
26	Nogales, Ariz	(²)	0
27	Los Angeles, Calif	207.8	379.8
	Region VIII—San Francisco, Calif	927.8	1,302.5
28	San Francisco, Calif	442.8	681.2
29	Portland, Oreg	215.7	258.1
30	Seattle, Wash	208.9	290.6
31	Juneau, Alaska	47.4	61.2
32	Honolulu, Hawaii	13.0	11.4
33	Great Falls, Mont	(²)	(²)
	Region IX—Chicago, Ill	72.7	60.2
34	Pembina, N. Dak	(²)	(²)
35	Minneapolis, Minn	3.6	5.4
36	Duluth, Minn	2.0	2.5
37	Milwaukee, Wis	3.6	4.4
38	Detroit, Mich	9.9	13.6
39	Chicago, Ill	31.2	19.4
41	Cleveland, Ohio	22.3	14.9
45	St. Louis, Mo	.1	0
60	Vessels under their own power or afloat	.7	0
70	Esimated low-value shipments	4.2	7.7
80	Mail shipments	5.6	5.6
	Special category (military) shipments	8.0	35.2

¹ The grand total figure also includes vessels under their own power or afloat, low value shipments, mail shipments and special category (military) shipments. These items are not classified by commodity nor assigned to specific customs districts. The total values of each are presented in the supplementary table.
² Values less than $50,000 and percentages less than 0.05 percent.
³ Included in Region I total: Portland, Maine (97)—cutlery (39), crude vegetable materials (26), chemicals (13) aluminum (12); St. Albans, Vt. (151)—crude minerals (151); Buffalo, N.Y. (79)—chemicals (59).

Note: District totals and commodity entries may not equal their respective subtotals and grand totals because of rounding.
Customs districts receiving less than $250,000 worth of goods from Japan are not individually shown on the main table; however, their values are included in appropriate region totals. Total shipments from these customs districts and principal commodities are listed above with value figures (in thousands of dollars).
There were no exports to Japan in 1969 from El Paso, Tex.; Nogales, Ariz.; and St Louis, Mo. Exports from Great Falls, Mont. and Pembina, N. Dak. totaled less than $500.

Source: U.S. Bureau of the Census.

U.S. IMPORTS FROM JAPAN, 1969

[In thousands of dollars]

Sec.—	SITC commodity	Amount
	Grand total	4,848,897
	Food and live animals	130,856
001	Animals, live	100
	Meat and meat preparations	2,028
011	Meat, fresh, chilled, or frozen	1,937
012	Pork, dried, salter, or smoked	42
013	Meat and meat preparations, n.e.s.	52
025	Dairy products—Eggs	11
	Fish and fish preparations	100,480
031	Fish, fresh	47,740
032	Fish and fish preparations, n.e.s.	52,739
048	Cereal flour, starch preparations, other	1,670
	Fruit and vegetables	17,648

U.S. IMPORTS FROM JAPAN, 1969—Continued

[In thousands of dollars]

Sec.—	SITC commodity	Amount
051	Fruit, fresh, and nuts	339
052	Dried fruit	28
053	Fruit, preserved	13,597
054	Vegetables, fresh or frozen	224
055	Vegetables, preserved	3,457
	Sugar and honey	303
061	Sugar and honey	69
062	Sugar, preparations	236
	Coffee, tea, cocoa, and spices	2,018
071	Coffee	1
073	Chocolate and preparations	73
074	Tea and mate	964
075	Spices	981
081	Feeding stuff for animals	3,731
099	Miscellaneous food preparations—Food preparations, n.e.s	2,866
	Beverages and tobacco	2,578
	Beverages	2,575
111	Nonalcoholic beverages	2
112	Alcoholic beverages	2,573
122	Tobacco manufactures	1
	Crude materials, inedible, except fuels	32,385
	Hides, skins, and furs, undressed	829
211	Hides and skins, undressed	7
212	Furskins, undressed	823
221	Oil-seeds	8
231	Crude rubber (including synthetic)	6,094
	Wood, lumber, and cork	2,437
241	Fuel, wood, and charcoal	41
242	Wood, rough	1
243	Wood, shaped	2,386
244	Cork, natural, raw, and waste	9
	Textile fibers and waste	15,649
261	Silk	2,727
262	Wool	904
263	Cotton	87
264	Jute	7
265	Vegetable fibers	3
266	Synthetic fibers	10,375
267	Waste materials	1,549
	Crude fertilizers and crude minerals	3,352
273	Stone, sand, and gravel	13
274	Sulfur and unroasted pyrites	7
275	Natural abrasives, industrial diamonds	2,428
276	Other crude minerals	906
	Metals ores and scrap	932
282	Iron and steel scrap	289
283	Ores and concentrates of nonferrous base metals	5
284	Nonferrous metal scrap	178
285	Silver and platinum ores	460
	Crude animal and vegetable materials, n.e.s	3,081
291	Crude animal materials, n.e.s	150
292	Crude vegetable materials, n.e.s	2,930
	Mineral fuels, lubricants, and related materials	4,676
321	Coal, coke, and briquets	1
	Petroleum and petroleum products	4,665
331	Petroleum, crude and partly refined	189
332	Petroleum products	4,476
341	Gas, natural and manufactured	11
	Animal and vegetable oils and fats	2,996
411	Animal oils and fats	1,918
422	Fixed oils and fats—Other fixed vegetable oils	968
431	Animal and vegetable oils and fats, processed	109
	Chemicals	120,503
	Chemical elements and compounds	78,573
512	Organic chemicals	57,225
513	Elements, oxides, and halogen salts	15,748
514	Other inorganic chemicals	5,600
521	Mineral tar, tar oils, etc	71
	Dyeing, tanning, and coloring materials, n.e.s	4,026
531	Synthetic organic dyestuffs	3,042
533	Pigments, paints, varnishes	984
541	Medicinal and pharmaceutical products	4,637
	Essential oils, and perfume materials	1,619
551	Essential oils, perfume and flavor materials	60
553	Perfumery and cosmetics, other preparations	1,154
554	Soaps and cleaning preparations	408
561	Fertilizers, manufactured	647
571	Explosives and pyrotechnic products	1,926
581	Plastic materials and artificial resins	27,772
599	Chemical materials and products, n.e.s	1,221
	Manufactured goods classified chiefly by material	1,668,594
	Leather manufactures, n.e.s., and dressed furs	7,022
611	Leather	418
612	Manufactures of leather or of artificial leather	6,524
613	Furskins, tanned or dressed	80
629	Rubber manufacturers, n.e.s	20,437
	Wood and cork manufactures (excluding furniture)	99,978
631	Veneers, plywood boards, etc., n.e.s	70,875
632	Wood manufactures, n.e.s	29,097
633	Cork manufactures	2

U.S. EXPORTS TO JAPAN, 1969—Continued

[In thousands of dollars]

Sec.—	SITC commodity	Amount
	Paper, paperboard, and manufactures	23,380
641	Paper and paperboard	3,038
642	Articles of pulp, paper, or paperboard	20,338
	Textile yarn, fabrics and articles	283,584
651	Textile yarn and thread	19,460
652	Cotton fabrics, woven	51,126
653	Textile fabrics, woven, except cotton fabrics	153,393
654	Tulle, lace, findings, etc	5,658
655	Special textile fabrics, related	9,818
656	Made-up articles, textile, n.e.s.	19,748
657	Floor coverings, tapestries, etc	24,379
	Nonmetalic mineral manufactures, n.e.s	158,829
661	Lime, cement, and fabricated building material	3,573
662	Clay and refractory construction material	26,805
663	Mineral manufactures, n.e.s	1,518
664	Glass	24,156
665	Glassware	7,644
666	Pottery	81,572
667	Pearls and precious and semi-precious stones	13,561
	Iron and steel	766,805
671	Pig iron	2,895
672	Ingots and other primary forms	831
673	Bars, rods, angles, shapes, and sections	130,712
674	Universals, plates, and sheets	431,668
675	Hoop and strip	12,250
676	Railway construction material	151
677	Iron and steel wire, excluding wire rod	54,695
678	Tubes, pipes, and fittings	132,136
679	Castings and forgings, unworked, n.e.s	1,469
	Nonferrous metals	57,543
681	Silver and platinum	969
682	Copper	21,690
683	Nickel and nickel alloys	5
684	Aluminum	11,350
685	Lead and lead alloys	101
686	Zinc	13,27[illegible]
689	Miscellaneous nonferrous base metals	10,151
	Manufactures of metal, n.e.s	251,018
691	Finished structural parts and structures, n.e.s	611
692	Metal containers	410
693	Wire products and fencing grills	27,825
694	Nails, screws, nuts, bolts, etc	82,749
695	Tools	28,436
696	Cutlery	37,253
697	Household equipment of base metals	26,067
698	Manufactures of metal, n.e.s	47,670
	Machinery and transport equipment	1,711,721
	Machinery, nonelectric	312,859
711	Power generating machinery	31,501
712	Agricultural machinery and implements	4,216

Sec.—	SITC commodity	Amount
714	Office machines	86,071
715	Metalworking machinery	19,665
717	Textile and leather machinery	67,312
718	Machines for special industries	8,524
719	Machinery and appliances and machine parts, n.e.s	95,560
	Electric machinery, apparatus, and appliances	877,910
722	Electric power machinery and switchgear	51,181
723	Equipment for distributing electricity	27,630
724	Telecommunications apparatus	646,555
725	Domestic electrical equipment	26,789
726	Electro-medical and X-ray apparatus and parts	2,971
729	Other electrical machinery and apparatus	122,775
	Transport equipment	520,960
731	Railway vehicles	3,273
732	Road motor vehicles	477,060
733	Road vehicles other than motor vehicles	16,804
734	Aircraft	19,966
735	Ships and boats	3,855
	Miscellaneous manufactured articles	1,105,716
812	Building fixtures	12,257
821	Furniture	15,524
831	Travel goods, handbags, etc	27,510
	Clothing	250,985
841	Clothing, except fur clothing	250,851
842	Fur clothing	136
851	Footwear	84,339
	Precision instruments and goods	170,861
861	Scientific, medical, optical, etc., instruments	146,534
862	Photographic and cinematographic supplies	9,072
863	Developed cinematographic film	659
864	Watches and clocks	14,597
	Miscellaneous manufactured articles, n.e.s	544,239
891	Musical instruments, sound recorders, parts	299,812
892	Printed matter	9,799
893	Articles of plastic, n.e.s	54,208
894	Toys, games, sporting goods, etc	111,439
895	Office and stationery supplies, n.e.s	7,891
896	Works of art, antiques, etc	3,655
897	Jewelry	9,494
899	Manufactured articles, n.e.s	47,956
	Commodities and transactions not according to kind	68,863
931	Special transactions not classified	30,224
941	Animals, "n.e.s.—Live," including zoo	726
951	Arms of war, military equipment	105
990	Commodities and transactions not classified according to kind	37,804

SUPPLEMENTARY TABLE—U.S. IMPORTS OF MERCHANDISE FOR CONSUMPTION FROM JAPAN

[In millions of dollars f.o.b.]

Sec.—	Customs districts	Imports from Japan (A) 1968	Imports from Japan (A) 1969
	Grand total	4,043.7	4,848.9
	Region I—Boston, Mass.[1]	137.0	144.7
01	Portland, Maine	.2	.2
02	St. Albans, Vt	.5	.8
04	Boston, Mass	113.4	120.6
05	Providence, R.I	2.4	2.9
06	Bridgeport, Conn	6.0	4.7
07	Ogdensburg, N.Y	.3	.2
09	Buffalo, N.Y	14.1	15.3
10	Region II—New York City	1,141.0	1,284.0
	Region III—Baltimore, Md.[2]	264.1	284.4
11	Philadelphia, Pa	157.3	148.2
13	Baltimore, Md	72.3	89.9
14	Norfolk, Va	34.0	45.9
54	Washington, D.C	.5	.4
	Region IV—Miami, Fla	188.0	220.5
15	Wilmington, N.C	22.7	27.1
16	Charleston, S.C	21.0	21.8
17	Savannah, Ga	23.3	28.7
18	Tampa, Fla	36.6	43.4
49	San Juan, P.R	51.7	64.6
52	Miami, Fla	32.7	34.9
	Region V—New Orleans, La	181.6	210.7
19	Mobile, Ala	19.8	21.2
20	New Orleans, La	161.8	189.5
	Region VI—Houston, Tex.[3]	155.8	179.6
21	Port Arthur, Tex	1.2	1.0
22	Galveston, Tex	7.3	7.0
23	Laredo, Tex	.9	.7
24	El Paso, Tex	3.2	5.0
53	Houston, Tex	143.2	165.9
	Region VII—Los Angeles, Calif.[4]	840.3	1,162.1
25	San Diego, Calif	30.2	33.1
26	Nogales, Ariz	.1	.2
27	Los Angeles, Calif	809.9	1,128.8
	Region VIII—San Francisco, Calif.[5]	632.0	812.6
28	San Francisco, Calif	336.3	392.7
29	Portland, Oreg	109.5	136.5
30	Seattle, Wash	136.2	209.4
31	Juneau, Alaska	5.5	13.0
32	Honolulu, Hawaii	44.6	60.9
33	Great Falls, Mont	([6])	.1
	Region IX—Chicago, Ill.[7]	450.8	512.2
34	Pembina, N. Dak	.2	.3
35	Minneapolis, Minn	8.4	12.1
36	Duluth, Minn	1.9	.2
37	Milwaukee, Wis	14.1	14.5
38	Detroit, Mich	73.7	57.2
39	Chicago, Ill	272.9	329.5
41	Cleveland, Ohio	61.1	72.9
45	St. Louis, Mo	18.5	25.5
70	Estimated low-value shipments	53.1	37.8

[1] Included in region 1 total: Portland, Maine (233)—chemicals (101), metal manufactures, n.e.s. (36) machinery (34); Ogdensburg, N.Y. (196)—machinery (54), clothing (43), chemicals (24), textile mill products (17).

[2] Included in region III total: Washington, D.C. (455)—works of art, antiques, etc. (115), cultured pearls (70), machinery (67), printed matter (38), musical instruments, sound recorders and parts (31), chemicals (30).

[3] Included in region VI total: Laredo, Tex. (749)—precision instruments (452), machinery (148), textile mill products (69).

[4] Included in region VII total: Nogales, Ariz. (246)—steel mill products (138), non-metallic mineral manufactures, n.e.s. (35) machinery (15).

[5] Included in region VIII total: Great Falls, Mont. (82)—rubber tires (48), footwear (12).

[6] Values less than $50,000 or percentages less than 0.05 percent.

[7] Included in region IX total: Pembina, N. Dak. (253)—metal manufactures, n.e.s. (120), machinery (50), footwear (20); Duluth, Minn. (166)—machinery (76), precision instruments (35), aluminum (12).

Note: District totals and commodity entries may not equal their respective subtotals and grand totals because of rounding. Customs districts receiving less than $750,000 worth of goods from Japan are not shown on the main table; however, the values for these districts are included in the respective region totals. Principal commodities and total shipments to these customs districts are given in the above footnotes with value figures (in thousands of dollars).

Source: U.S. Bureau of Census.

Mr. STITT. There is no question, Mr. Senator, that Japan has a great need for foods and raw materials and that, indeed, between a half and two-thirds of U.S. products exported to that nation are in that area.

I would like to point out, however, something that is, perhaps, new to many of us. Japan only today is reaching the mass consumer, or in other words, is becoming a mass consumer market. I think you will discover a trend in recent years toward the import into Japan of American consumer goods, and other things which we in this country have enjoyed over the past several decades, and I believe this trend will continue, sir.

Senator BENNETT. I have no further questions.

Senator TALMADGE. Mr. Stitt, I do want to congratulate you on your good judgment in employing as your legislative counsel a brilliant and dedicated Georgian, Dan Minchew, whom I have known for a long time.

Back in the days when I used to practice law, my clients did not tell me what to say or how to say it or when, but I tried to represent their interest, and I compliment you for doing the same thing.

Mr. Chairman, at this point I would like to insert in the record an article from the September issue of Fortune magazine entitled "How the Japanese Mount that Export Blitz."

The CHAIRMAN. Without objection.

(The article follows: Hearing continues on page 169.)

[From Fortune, September 1970]

HOW THE JAPANESE MOUNT THAT EXPORT BLITZ

By Louis Kraar

The world's trading nations are feeling the squeeze of a powerful government-business complex dubbed "Japan Inc." Its weapons include cartels, price cutting, and unbounded patriotic zeal.

To hard-pressed competitors around the world, Japan's export drive is taking on the overtones of a relentless conspiracy to invade and dominate every vital international market. Almost everywhere, from North America to Southeast Asia, the Japanese are steadily increasing their already enormous share of sales. The very rhetoric of Japanese businessmen reinforces the image of a hyper-aggressive trading power—with talk of "advancing" into a new area, "forming a united front" against foreign rivals, and "capturing" a market.

Moreover, this thrust comes from a nation that firmly shields it own market against foreign competitors, who are thus doubly provoked and are now threatening economic warfare.

In the non-Communist Far East, which accounts for almost 30 percent of Japan's export sales, ever rising trade imbalances are spurring Thailand, Taiwan, and other countries to consider higher tariffs and other defensive restrictions. Says Jose Diokno, chairman of the Philippine Senate Economic Affairs Committee: "We realize that the Japanese are getting through commerce what they failed to achieve through the war."

The trade clash is even more intense in the U.S., which buys nearly a third of Japan's exports and is its largest single customer. Tokyo's refusal to adopt long-term "voluntary" limits on textile exports has prompted a reluctant Nixon Administration to support stringent legislation setting quotas. And atop this significant American retreat from a free-trade stance, protectionist forces in Congress are pressing for even broader restrictions on other products. "The present economic image of Japan in the United States is not poor; it is bad," observes Philip H. Trezise, Assistant Secretary of State for Economic Affairs.

Japanese manufacturers of television sets are facing a major showdown with American competitors, who have accused the Japanese of dumping—i.e., selling below recognized market prices—a charge on which a U.S. Treasury ruling is soon expected. While the Japanese TV set makers firmly deny dumping, other Japanese manufacturers openly acknowledge that they often use cutthroat export prices for market penetration. To establish its air conditioners in Western Europe, for example, Hitachi, Ltd., deliberately sold below cost for three years. As a company executive puts it, with surprising candor: "If you get a better price in some countries, then you can sell to others for a 'dumping' price. As long as the unit production cost is low, the company still has an over-all profit from its total sales. We sold at a loss in Europe to break into the market, and now we're making a profit there".

Such practices fall somewhere in the gray shadows of the General Agreement on Tariffs and Trade, and the argument will doubtless continue as to whether they are in actual violation. Meanwhile, Japanese exports are expected to keep right on soaring. They are now projected to reach nearly $42 billion by 1975, producing a staggering trade surplus of $12 billion, a prospect that leads Assistant Secretary Trezise to warn: "I seriously question whether the international system can stand a Japanese global trade balance of $12 billion in 1975."

The starting point for this trade offensive is an economy of phenomenal strength, directed wholeheartedly toward growth rather than immediate profit. Over the past decade the Japanese gross national product has increased by an average of more than 16 percent annually, and from this ever broadening base, exports have also been rising by an average of 16 percent a year—about twice as fast as the growth of world imports. The entire economic system is, inherently, a powerful export-promotion apparatus. Always anticipating growth, corporations routinely expand manufacturing facilities to optimum size, pushing excess production onto world markets at profit margins that competitors find cruelly low—when they exist at all. Now Japan is preparing to move on to new trade peaks by emphasizing exports of entire industrial plants. As befits an insular industrial giant, it is also making long-term deals overseas to assure a stable supply of raw materials for use in the ever greater expansion of its export position. Within five years the Japanese expect a 123 percent rise in exports, enough to seize at least 10 percent of the global market.

Hit with the full impact of this aggressive export drive, rival industrial nations are now beginning to ponder the singular, and devastatingly effective, tactics being employed by the Japanese. The program has some highly original features that will be hard to match:

The export offensive is commanded by Premier Eisaku Sato in person; he heads the Supreme Trade Council, where top business and government leaders quietly slice up the world market and set annual goals for every major product and country.

To boost exports, the government backs corporations with an arsenal of help—credit at preferential rates, attractive tax incentives, and even insurance against overseas advertising campaigns that fail to meet sales targets.

Cartels of exporters meet regularly to fix prices and lay plans for overwhelming foreign competitors.

A large and growing foreign-aid program is, at heart, another export-promotion device, fueled with long-term credit and direct investments.

Giant general trading companies spearhead the export drive. Their tireless sales forces abroad are backed by the full force of Japan's banks and government ministries.

A government-owned company, JETRO, operates on a global basis to promote Japanese products and arm companies with export intelligence.

EXCEEDING TARGETS IS A DUTY

The key to the entire program is intimate, effective teamwork between corporate executives and government officials at every level. United by a group spirit that makes the Japanese behave like a tight-knit family, businessmen and bureaucrats cooperate to promote continuing growth. "If business goes one way and government goes another way, it would bring harmful effects for the country," explains a Finance Ministry economist. So they coordinate plans in the clubby atmosphere of formal consultative committees and over evening cocktails in the Ginza, Tokyo's business entertainment district. This government-business interaction is so close and constant that the system is often dubbed Japan Inc.

Detailed strategy for the export drive is developed through the Supreme Trade Council, a thirty-member body that brings together the country's elite from key ministries dealing with the economy and from the major private industries. At its last semi-annual meeting in July, the council projected a 14.3 percent growth for exports to $19.2 billion in the fiscal year ending next March 31. Says a government official deeply involved in the planning: "Once the target is announced, business leaders think it is their duty to achieve it. Usually, they exceed the goal.

To carry out expansion plans, the Ministry of International Trade and Industry (MITI) constantly confers with company representatives about allocation of resources. Through "administrative guidance" (which is almost always obeyed), MITI even sets minimum sizes for industrial plants when it feels economy of scale is vital. The Ministry of Finance, through the Bank of Japan, funnels funds to areas with the highest growth potential. By backing an extremely high use of corporate debt to finance growth, this ministry and the central bank play a key part in setting the pace and direction of expansion. This government structure stabilizes a Japanese business system devoted to high growth—the launching platform of the export offensive.

Since companies normally finance expansion by borrowing about 80 percent of their total capital, mostly from banks, debt service is a major fixed operating cost. Japan's tradition of virtual lifetime employment, with a paternalism that fosters an unusually dedicated and productive work force, makes labor costs another fixed expense. "The high breakeven point set by fixed labor costs and debt costs means that new facilities are operated at capacity, and products are moved into world markets at relatively low pirces", notes James C. Abegglen, vice president of the Boston Consulting Group, Inc., a management-consulting organization that has closely analyzed Japan's business strategy.

START WITH A SACRIFICE FLY

The system enables companies to use highly flexible market penetration tactics. Two Japanese auto makers—Nissan Motor Co. and Toyota Motor—established footholds in the U.S. by offering dealers higher commissions than were given on other imported cars, as well as unusually generous advertising support, according to the Boston Consulting Group, In the Philippines, Toyota has captured a quarter of all auto sales, after initially selling to taxicab fleet owners on terms of nothing down and a six-month holiday on installment payments. "They were losing money on us outright for about two years just to introduce Toyota vehicles in the Philippines," says Pablo Carlos, executive vice president of Delta Motor Corp., Manila, which assembles and distributes Toyota cars. Other Japanese companies readily acknowledge that they forgo profits to break open new markets. "When there's sharp competition and we want to introduce our products, then in the initial sale we make a sort of sacrifice hit," declares Morihisa Emori, managing director of Mitsubishi Shoji Kaisha, Ltd., the general trading company with the largest total sales. There is a distinctively Japanese motive behind such tactics, he explains: "In America top management people are big stockholders and are more defensive about maintaining profits. For us, growth is most important."

Such penetration pricing is not only a significant competitive device, but also sets the base for handsome future profits. The rapid growth of production facilities at the sacrifice of high immediate returns cuts unit costs; this steadily leads to large profit margins at the same time that it allows highly competitive prices to squeeze out rivals. Until three years ago, Japan's shipbuilding industry operated at almost no profit margin for exports, according to a highly qualified Tokyo accountant; now Japanese yards have heavy backlogs of orders, turn out half the annual ship tonnage of the world, and report tidy earnings. Norihiko Shimizu, a Japanese economist with the Boston Consulting Group, declares: "Japan's pricing policies can in no way be termed dumping. They constitute a powerful competitive weapon in capturing and holding market share."

"OUR EQUIVALENT OF KNIGHTHOOD"

The Japanese team goes after exports with genuinely patriotic zeal. Toyota, the country's exporting champion, proudly cheers on assembly-line workers with large monthly posters depicting on a world map the number of cars sold in each major overseas market. (The government recognizes such success with handsome certificates of merit—"our equivalent of knighthood," says a Toyota executive with a smile.) In the same spirit, Matsushita Electric Industrial Co., Ltd., which exports nearly 20 percent of its total sales of National and Panasonic appliances, starts the day with a company song urging workers to build "a new Japan" by promoting production—"sending our goods to the people of the world, endlessly and continuously, like water gushing from a fountain."

Directly and indirectly, government policies work to concentrate new investment where worldwide demand is currently highest—heavy machinery, chemicals, and high-precision products. Moreover, following a strategy agreed upon by the government-business establishment, Japanese corporations are giving exports an integral—and larger—role in their blueprints for expansion. For example, Hitachi, a leading manufacturer of heavy electrical equipment and industrial machinery, is embarked on an extensive drive to make greater inroads in world markets by not only selling more equipment, but peddling technical know-how and forming joint ventures abroad; Hitachi's goal is to raise the export portion of total sales from 14 percent last year to 23 percent by 1975. Likewise, Teijin Ltd., which now exports about 30 percent of its synthetic-textile production, is spawning joint ventures outside Japan and diversifying into oil drilling, titanium production, and the processed-food industry. Over the next ten years Teijin plans to expand sales tenfold—half of which is to be exports. Says Teijin President Shinzo Ohya, "It's practically our duty to increase exports." To widen opportunities abroad, other manufacturers are designing products specifically for overseas markets, ranging from miniature office computers to entire fertilizer factories for underdeveloped nations. Akai Electric Co., Ltd., has emerged as a major producer of tape recorders by specializing in higher-priced machines ($300 and up) and it sells about 95 percent of its production abroad.

In crucial areas of trade, the full force of Japan's subtly interlocking system can almost always overwhelm foreign competition. Bidding for a recent telephone-equipment contract in Taiwan, a consortium of Japanese telecommunication companies won the order after a government official urged individual manufacturers to combine forces, cut prices, and forgo most profits "to get the business for the good of Japan." Japan's competitive edge is sharpened further by government-backed credits at relatively low interest rates, which finance about 10 percent of the country's exports. In bidding against Italian and American competitors for a chemical plant in Latin America, Niigata Engineering Co., Ltd., sweetened its low bid by offering substantial government financing from the Export-Import Bank of Japan. This was the case, too, when Chiyoda Chemical Engineering & Construction Co., Ltd., last year went after a $31-million job to build a refinery for Standard Oil (N.J.) in Singapore. In the final weeks of competition against European and U.S. contractors, the Japanese company hastily arranged $12 million in government financing for the project over seven years at 6.5 percent annual interest. Recalls a Chiyoda official: "The question of financing was raised about one month before award of the contract. I was in America, talking to Esso in the daytime and talking to Japan on the phone at night. Our people checked with the Japanese Government and within three weeks had some indication of approval. That was just one week before the contract was awarded."

TANKERS AND INSTANT NOODLES

The uniquely Japanese *soogoo shoosha*, general trading companies, add a number of effective touches of their own. As the principal sales agents for all products, these mammoth companies mobilize the combined forces of manufacturers, banks, and government and are the day-to-day leaders in Japan's assault on world markets. The ten largest trading houses are responsible for some 50 percent of the country's exports and 65 percent of imports. Together with smaller, specialized firms, the traders make more than 70 percent of Japan's total foreign sales.

"We handle about 7,000 different commodities, ranging from turnkey industrial plants and 300,000-ton tankers to small packages of raisins or instant noddles," says Emori of the Mitsubishi trading company, the sales leader with an annual turnover exceeding $9 billion. The trading firms thrive on a traditional form of Japanese economic cooperation. Most manufacturers concentrate entirely on production, assigning to traders both the buying of raw materials and the selling of finished products at home and abroad. As middlemen, the large trading companies earn their profits (with margins as low as 0.5 percent) on massive turnovers. In return for commissions, trading houses assure manufacturers of growing markets and come to their aid with timely infusions of credit.

Astute, energetic trading-company representatives work almost everywhere, sniffing out opportunities for Japanese manufacturers. In Indonesia, competitors are amazed that trading agents travel to small factories far from the capital and give away ballpoint pens, cigarette lighters, and other advertising gifts—all in hopes of eventually selling equipment to those remote plants. "The sun never sets on Mitsui's globe-girdling establishment," boasts the company; its 2,100 employees in sixty-four foreign countries are based not only in the obvious business centers, but also in such places as Chittagong, Sofia, and Mexicali. Trading-house operatives are the eyes and ears abroad for Japanese industry.

Single-minded in their dedication to expanding international markets, Japanese trading executives foresee a never ending rise of exports. The headquarters of larger houses are so jammed with a daylong procession of clients and potential customers that entire corridors are set aside as "visitors' rooms." There, businessmen sit on overstuffed couches with white linen antimacassars and make deals while sipping tiny cups of green tea. The working rooms are overflowing with the bursting energy of lifetime employees devoted, above all, to selling more for Japan.

Armed with timely business intelligence from their men overseas, the trading firms organize manufacturers to get the orders, and draw on their government contacts for financing. Under the direction of trading firms, Japan has steadily moved from just supplying foreign markets with petrochemicals and fertilizer to exporting entire industrial plants. Mitsui alone has sold twenty-two chemical plants to developing countries in the past five years.

To enhance Japan's competitive position in world markets, the traders are intensifying their efforts in new directions. "When there are many international tenders for electrical generators or other machinery, Japan will become one unit, and we won't compete with each other," explains Mitsubishi's managing director.

The government encourages such teamwork among Japanese companies, which businessmen readily accept because it helps assure long-term credits and expands foreign orders. "From past experience, we've found more advantage than disadvantage in cooperating for the good of the country," says Jiro Fukushi, managing director of Marubeni-Iida Co., Ltd., another large trading house.

TEAMING UP WITH RIVALS

Japanese manufacturers have long followed the tactic of forming export cartels, which MITI officially sanctions and protects. By getting together, companies that normally compete in Japan cooperate to preserve the quality of export merchandise and prevent any company from underselling by such a wide margin that it would harm others in the industry. "The function of these associations is to keep the price of export commodities at a certain level," explains Masafumi Goto, director-general of MITI's Trade and Development Bureau. "When an outsider, a company that's not a member of the association, rushes into the market at a lower price, MITI under law can order the outsider to stop." Increasingly, the giant trading houses themselves are teaming up with rivals and with manufacturers to push into overseas markets with an even more potent single force.

Seven trading companies, for example, banded together with three Japanese steelmakers to obtain orders last year for $100 million worth of pipe for the Trans-Alaska Pipeline System under construction by a consortium of U.S. and British petroleum companies. "In this kind of epoch-making, huge project, cooperation among all our companies gives us a better chance against European mills," says an executive of Sumitomo Shoji Kaisha, Ltd., the trading company that was picked as "champion" by the team and put in charge of the negotiations.

Pitted against U.S. and European bidders for another recent oil-pipeline contract in Ecuador, the Sumitomo and Mitsubishi trading companies joined forces to win the contract for three Japanese steel companies. A Sumitomo official candidly describes the thinking behind such cooperation: "If we compete against each other overseas, it's no use; some foreign company may get the job. We have to present a joint front against the overseas competitors. This will become more and more necessary as the years go by—to keep up our competitive advantage against other countries. In order to safeguard Japanese interests against powerful foreign companies, we must form a united front."

Since any major international transaction must be cleared, at least informally, with MITI, the Japanese Government is able to guide trading-house teamwork in directions that will expand markets. One result is an easy blending of official aims with private business interests—as when Japanese trading firms signed a five-year contract with the Soviet Union in 1968 to import $163 million worth of lumber from Siberia in exchange for exports of machinery and textiles valued at the same amount. Japan sorely needs lumber, while its manufacturers are always seeking new outlets.

DIGGING IN ABROAD

In a departure from the customary middleman role, trading houses are developing raw-material sources abroad for Japanese industries. Marubeni-Iida is helping Canada's Fording Coal Ltd. finance a mine that, over fifteen years, will supply twelve Japanese steel mills with 45 million long tons of coking coal. Such projects for importing essential raw materials ultimately strengthen Japan's position as an exporter of manufactured goods, and they also lead to immediate sales abroad: Marubeni-Iida is selling Japanese bulk carrier vessels to Canadian mining companies. Rival trading firms also team up to develop overseas resources—for instance, Mitsubishi and Mitsui have jointly invested in a Zambia copper mine in collaboration with the Anglo American Corp.

In another new foreign-sales initiative, trading firms are actively promoting joint industrial ventures abroad. Mitsui, for instance, has invested in some ninety-five foreign ventures, including a plastics plant in Portugal, a peppermint-oil and crystal refinery in Brazil, and a factory for making galvanized iron sheets in Thailand. Says a Mitsui executive, "These improve export circumstances for Japanese industry."

Above all, the traders are willing to adapt to almost any situation that presents a sales opportunity. They handle trade between other countries, not only for the relatively small commissions but for business intelligence that leads to Japanese exports. Marubeni-Iida for instance, has long sold sugar to the U.S. for a Philippine mill; its contacts in Philippine industry have led to substantial contracts to equip several sugar mills with Japanese machinery—always with backing from the Ex-Im Bank of Japan.

If the sale is significant, trading houses can even arrange deals that relieve overseas customers of the need to provide foreign exchange. Sumitomo has an agreement with the Indonesian state oil company, Pertamina, to build in Sumatra a $30-million oil refinery, financed entirely by the Japanese Government and commercial banks. Pertamina will pay for the project by supplying Sumitomo with heavy oil over a five-year period, receiving credit at the going price. The trading company will make a profit both ways, according to a Sumitomo official: "The refinery contract will produce some profit on the sale of machinery and services, and then the import of the oil to Japan will also give us a commission."

Trading firms can operate widely and flexibly because they are plugged into every level of the Japanese establishment, which supports their role as Japan's most aggressive overseas sales force. The big traders are interlocked with major manufacturers; some (such as Mitsubishi and Mitsui) are an integral part of the zaibatsu, or large industrial groups, while others maintain managerial ties with scores of independent manufacturing concerns. These corporate relationships ensure traders a stable base of clients. The trading houses attract still more clients by borrowing enormous sums (up to twenty times their total capital) from banks and offering loans to manufacturers. Many smaller Japanese companies, which have difficulty obtaining bank credit, rely on the traders for financing.

The government works closely with the trading companies, too. An association of fourteen top trading companies meets every other month, often with government officials present, to discuss foreign-trade tactics. Inevitably, such gatherings of supposed competitors fortify cooperative bonds. When mainland China's Premier Chou En-lai announced in April that Peking would not trade with Japanese companies dealing with Taiwan and South Korea, the major trading companies reacted as though they had arranged a division of labor. Some firms chose to stick with China, while others decided to maintain business with Taiwan and Korea. But the over-all result so far has been to ensure Japan's continued access to all those coveted markets.

So intimate is the cooperation between government ministries and large trading firms that it is impossible to determine which is really trying to influence the other; usually they are united in the cause of trade expansion. Therefore it is not unusual to hear trading-house executives sounding like government officials.

"It's our duty to help other countries develop," says Mitsui's executive managing director, Hisashi Murata.

A colleague adds, "It's our duty to sell more."

"Yes," continues Murata, "but in doing business, we've got to help the countries, too. Otherwise we might get kicked out of exporting to them."

Indeed, the Japanese have at long last become slightly embarrassed by the angry tide of complaints about their trade offensive, which has piled up enormous and still-growing surpluses in Tokyo's favor. To placate disgruntled trading partners abroad, the government-business establishment has pledged to put more emphasis on imports and has launched a major foreign-assistance program. Even the Supreme Trade Council (until recently called the Supreme Export Council) has a new face and a working committee on imports. But all these moves actually help spur exports.

AID, BUT TO WHOM?

Although carried under the banner of "economic cooperation," nearly half of Japan's total $1.2 billion assistance to developing countries last year consisted of export credits for the purchase of Japanese products. Private companies handle most of these sales with government financing, actively seeking out and signing deals that are officially called foreign aid. "We are always approaching foreign governments and business circles to determine what is needed for their development. We put our tentacles all round to see where the business opportunities are," says Mitsui's Murata.

Lumped into the aid package are direct private investments (totaling $144,100,000 last year), which also stimulate Japanese exports. Overseas joint ventures, carefully coordinated with the government, open up fresh markets for Japan. With combined financial help from major trading companies, banks, and the government, Nippon Steel has established joint-venture mills in Malaysia, the Philippines, and Brazil. The mills are considered "foreign aid" even though all are equipped with Japanese machinery, and the Philippine mill buys semiprocessed hot coils from Nippon Steel. None of the foreigh affiliates competes in Japan's principal markets in highly industrialized countries. By spawning manufacturing affiliates for textiles in underdeveloped countries, Japanese companies benefit both from cheaper labor and from new outlets for petrochemicals required by the foreign factories.

Japan has pledged to increase private and government "economic cooperation" to about $4 billion by 1975. But the move toward larger assistance is closely related to export promotion. MITI says that exports must continue increasing by at least 15 percent annually to help meet the nation's foreign-aid target. Simultaneously, corporations are cranking up larger export plans on the basis of greater long-term credit expected from the aid program.

Surprisingly, in view of the tremendous overseas sales effort, Japan's economic strength is relatively independent of trade. Exports account for only about 9 percent of G.N.P., in contrast to 19 percent for West Germany and 35 percent for Holland. While Japan naturally must export to pay for foreign purchases of raw materials, its relative dependence on imports is shrinking. Technological advancement has reduced reliance on imports of machinery, and the more advanced heavy and chemical industries require proportionately less in the way of imported raw materials.

A larger sense of nationalism derived from growth and market expansion—not hard economic necessity—seems to drive the Japanese toward ever rising exports. "They're somewhat intoxicated by the figures. All of this has become almost a religion for them," observes a U.S. businessman who has spent the past twenty-five years in Japan.

PROBLEMS AT HOME

Ultimately, long-repressed domestic demands could slacken the pace of export growth. Despite its emergence as the third-largest economic power in terms of G.N.P. (after the U.S. and the Soviet Union), Japan still faces widespread deficiencies in housing, social services, and roads, as well as a choking environmental pollution. The industrious work force has lately been demanding—and getting—wage increases that outpace productivity gains.

A few government advisers are beginning to urge a slowdown in the export campaign, in favor of a more balanced growth to prevent inflation and improve the quality of life. Dr. Nobutane Kuichi, seventy-one, a former banker and Finance Ministry official who now heads the business-supported Institute of World Economy, urges: "Someone in authority must take the initiative. Confrontation between us and the world is no good. I'd like to see the growth rate of our exports decline from last year's 22 percent to no more than 10 percent, ideally 7 percent. I have told this to the Prime Minister, and he doesn't like it because everything is geared to exports. They probably won't accept my view by persuation, but by necessity we'll be following it within two years because of inflation and a shortage of manpower. Gradually, they will see the foolishness of expansion for the sake of expansion."

Although the Japanese deeply respect men of age and experience, there's little sign of widespread support yet for Dr. Kuichi's view. The consensus of Japan's closely meshed government ministries and business corporations is still for rampant export expansion. As a Mitsui trading-company executive says, "We now handle more than 12 percent of Japanese exports, and soon it will be 15 percent. The sky is the limit."

Senator TALMADGE. I have no further questions.

Mr. STITT. Senator Talmadge, that is indeed an interesting article. I must say I agree with it in great part, but I am afraid that many of the implications there are overdrawn and could certainly stand a searching reexamination.

Senator TALMADGE. I read it this morning and I was impressed, I admire the Japanese people greatly. As you pointed out in your statement, they are dedicated, they are hard working, they are ingenious. Their accomplishments since 1945 are an all time marvel of technology. They have recovered to where they can take over any market in the world if they make up their minds to do so.

I was impressed with the candor of the statements of the Japanese businessmen, who are quoted here in some detail. They did not make any bones about their intention. They did not make any bones about how they penetrated a market. They did not make any bones about their future plans.

That was one of the reasons why I was so impressed with the article, and I think it will make interesting reading in the record of this of this hearing.

Mr. STITT. There is much to be envied, sir, in the Japanese record of the past 20 years.

Senator BENNETT. Mr. Stitt, one other thing. You have referred to 98 articles in which the Japanese restrict imports and you say only 10 of them are interesting to the United States. I think we had better have the 98 articles listed in the record.

Mr. STITT. That is a current list, sir. By October of next year that list, which incidentally, is in Brussels nomenclature, will be reduced to 40 items of which only 10 will be manufactured.

Senator BENNETT. But by October of next year this legislation will either have been passed or forgotten, so I would like to have the 98 articles listed today.*

Mr. STITT. In fact, they do appear in fact sheet No. 3 which I presented to this committee as an attachment to my statement.

Senator BENNETT. Very good.

Mr. MINCHEW. Mr. Chairman, could I make one additional comment on Senator Talmadge's article which he has inserted in the record?

As Mr. Stitt said there are many interesting comments in this article. We feel, however, that some points were not emphasized. Two come to mind immediately which are these:

First of all, Japan, as a country, virtually void of raw materials, has to import practically all of the raw materials used in its manufacturing facilities, and in order to import these it has to pay for them with currency earned by exports. This is, I think, part of the motivational factor behind the Japanese drive for exports, which is not, maybe expressed in the article in question as strongly as it is felt in Japan.

The second point is that in spite of the great Japanese drive for exports, their share of exports as a function or as a proportion of their GNP is relatively small. It is less than 10 percent, a much smaller figure, say, than the export of GNP of European countries.

I think that the 10 percent, less than 10-percent figure has been rather constant and will probably remain constant in the future because of the increasing affluence of the Japanese consumer who will be purchasing more and more and therefore reducing their propensities to export.

The CHAIRMAN. Thank you.

Senator HANSEN. Mr. Chairman, may I ask a question?

The CHAIRMAN. Yes.

Senator HANSEN. Mr. Stitt, you represent the United States-Japan Trade Council. I take it you testified to that effect, and you spoke about how—I did not understand fully, but I gather that under the applicable law you have to make the statement thay you did asserting that you are registered as a foreign agent under the registration act; is that right?

Mr. STITT. That is correct, sir.

Senator HANSEN. But you do represent some 800 American companies or some 800 companies; were those American companies? I am not sure I understand.

Mr. STITT. Yes, sir. This is our membership list, our most recently published membership list, which list approximately that number.

* See p. 77.

Of the companies set forth here about two-thirds are purely American; one-third are Japanese trading companies doing business in the United States and incorporated here.

Senator HANSEN. But most of them are American companies?

Mr. STITT. Yes, sir.

Senator HANSEN. And you speak for all those 800 companies which have membership in your association; I guess that would be a fair statement?

Mr. STITT. I would say so, sir. We have been in this business for a matter of over 15 years. Our policies and positions are well known, and we have yet to witness any resignations based upon our trade policies.

I beg your pardon, I believe one company in Ohio a year ago did resign because they did not agree with the philosophy of our foreign trade policy.

Senator HANSEN. How is your organization financed? Do the various members of it contribute to its support?

Mr. STITT. They do, to the extent of 5 percent.

Senator HANSEN. To the extent of what?

Mr. STITT. Five percent.

Senator HANSEN. Five percent?

Mr. STITT. Yes, sir.

Senator Hansen. You mean each company puts in about 5 percent?

Mr. STITT. No, the total contribution from all these companies would represent 5 percent of our Council budget.

Senator HANSEN. Where does the rest come from?

Mr. STITT. From the Japan trade promotion office in New York which is financed by the Japanese Government.

Senator HANSEN. According to the information I have, I think that you testified before a House committee on June 11, at that time, Mr. Byrnes called attention to the fact that about $171,992 of your budget at that time came from the Japanese Government, despite the fact it may have been via a circuitous route, and the only other income that your organization had was some $2,280 from these other companies; is that right?

Mr. STITT. That is correct, sir.

Senator HANSEN. Did you do better in the second half?

Mr. STITT. Oh, yes, sir.

Senator HANSEN. How much better?

Mr. STITT. As I say, about, well, roughly $14,000 better.

Senator HANSEN. How much more did the Japanese Government put in the second half?

Mr. STITT. Roughly the same as the first half.

Senator HANSEN. Isn't it a fact that the total, the contribution for the whole year, discloses that some $339,792 came from the Japanese Government, and only some $14,000 from these other 800 companies?

Mr. STITT. Those figures are roughly correct, sir.

Senator HANSEN. If I figure right, that is about 4 percent.

Mr. STITT. Yes.

Senator HANSEN. I have no further questions, Mr. Chairman.

The CHAIRMAN. Thank you very much, Mr. Stitt.

The next witness is Mr. John W. Hight, executive director committee for a National Trade Policy.

STATEMENT OF JOHN W. HIGHT, EXECUTIVE DIRECTOR, COMMITTEE FOR A NATIONAL TRADE POLICY, ACCOMPANIED BY DAVID J. STEINBERG, SECRETARY AND CHIEF ECONOMIST

Mr. HIGHT. Mr. Chairman, I am John Hight, executive director of the Committee for a National Trade Policy.

I would like to introduce my associate, Mr. David J. Steinberg, who is chief economist and secretary of our committee.

Senator BENNETT. Mr. Hight, before we embarrass you——

Mr. HIGHT. You need not embarrass me.

Senator BENNETT. OK.

Mr. HIGHT. I thought you were going to do it right now.

The CHAIRMAN. Senator Bennett wanted to make the point that we want the witnesses to confine themselves to a 10 minute summary of their statement. I do not think you have a long statement.

Mr. HIGHT. I have no statement at all, Senator.

Senator BENNETT. That is sometimes the worst kind, Mr. Hight.

Mr. HIGHT. I ask that I may share the 10 minutes with Mr. Steinberg, and we will talk on several subjects which are before the committee.

First of all, Mr. Chairman, I think you know us. We have been before you for some 15 years.

I can remember back to 1955, 1958, 1962, when we presented testimony on the renewal of the Trade Agreements Act, and two or three other occasions, I think, when special legislation was before you.

We are a business-supported organization. We are quite broad. We are not necessarily big business, but we are supported by some big business and by quite a number of middle businesses, smaller businesses, not all of whom have direct interest in exports.

We regard ourselves as a public organization, educational organization, with contacts with public and private organizations across the country numbering into the hundreds.

Our membership is quite large but, for the most part, they have no active voice in our views. We express our views, subject to a board of directors of some 35, which I can submit for the record as to who these people are. They are the governing body.

I think I may say right away that we oppose the bill as approved by the Ways and Means Committee, and we do not like the rule that was passed by the Rules Committee by a margin of 8 to 7. We would have preferred an open rule in the House, but now you have this legislation before you in the form of an amendment which is essentially the same as the House Ways and Means Committee approved bill.

We regard this trade bill now before you to be worse legislation in the context of 1970 than the Smoot-Hawley Tariff Act was in the context of 1930.

The reasons, I think, are quite simple. This is essentially a quota bill which, in our view, is worse than a tariff bill, than a high tariff bill.

The Smoot-Hawley bill was a high tariff bill. It culminated a period of high tariffs, of a high tariff policy in the Congress and in the executive starting from a low of the Underwood tariff in 1913, going through the Fordney-McComber Act of 1922, I think it was, and coming up to the Smoot-Hawley Act which was the highest tariff act in our history, in 1930.

In terms of the times, it was bad because it continued a 20-year period of high tariffs. I think what we are faced with now is a bill that may reverse a period of something like 35 years from 1934 when the first Hull reciprocal trade agreement bill was passed. During that 35-odd years, we have consistently, for the most part, reduced our tariffs on a reciprocal basis.

In the first 10 years, first 15 years, they were bilateral, but later on, after 1945, the renewal of 1945, they became multilateral through the Gatt, which was, I think, a considerable advance.

Quotas are worse than high tariffs because quotas are restrictive to certain levels whereas tariffs can often be overcome.

Mr. Chairman, I will say that we favor, we would support, the administration's bill as it was originally proposed in 1969 November, I think. This we regard as the minimum.

We would have much preferred that this extension, an extension like this, be proposed in 1967 at the conclusion of the Kennedy round negotiations, when we would have had the monentum of the accomplishments of the Kennedy round, whereas now we have lost 3 years.

Protectionists, if I may use that term, have won considerable ground not only in this country but in all other industrialized countries as well. We have lost considerable ground.

I think the bill before you from the Ways and Means Committee is an outright retreat, and we could well lose most of what we gained in the Kennedy round.

Just to conclude, Mr. Chairman. As I said, I will be very brief. You have before you, I hope, at least I distributed, a statement signed by some 5,000 professional economists in this country opposing this bill, as approved by the House Ways and Means Committee. Mr. Chairman, 5,000 economists oppose this bill as a retrogressive measure which will turn the clock back.

This petition is similar, has a historical similarity, to what was done in 1930 by 1,000 economists led by Mr. Paul Douglas, who used to be a member of your committee. In 1930, 1,000 economists opposed the Smoot-Hawley bill, yet it was signed by Mr. Hoover.

We hope this will not be passed, and, if passed, it will not be signed by the President in its present form.

I will stop there, Mr. Chairman. I have copies which I hope are distributed of the appeal by the 5,000 economists, and of the New York Times treatment in the 1930's. We call such legislation a massive mistake, a mistake similar to the mistake that was made in 1930 which, in our view, I say not only as a committee, but I say on behalf of 5,000 economists, a mistake which deepened the depression and laid the seeds for World War II.

Mr. STEINBERG. Mr Chairman, I have some very, very brief comments to make, none of which I can give much attention to because of the time limitations.

I want to say that those Congressmen and those Senators who are concerned with the competitive position of the textile industry, steel, shoes, and other industries, ought to be commended for their concern. But the concern ought to be constructive concern with the real problems and the real needs of these various industries and, in my judgment, Mr. Chairman——

The CHAIRMAN. If I could just interrupt you, would you please provide me with a copy of that statement that you say the 5,000 economists signed, I will put it in the record.

Mr. HIGHT. Mr. Chairman, I have almost 5,000 names listed here, if you wish. But the statement itself, that is what you have in your hand.

The CHAIRMAN. I would be happy to. I now find I have a copy of this statement. Thank you.

Mr. HIGHT. Yes.

The CHAIRMAN. I will ask that to be printed in the record at this point.

(The document follows:)

AN APPEAL FOR FREER WORLD TRADE

The United States is faced once again with a momentous decision in its foreign-trade policy. Should our trade policy promote genuinely and consistently freer international trade in the total national interest, or government-controlled trade reflecting perversion of the national interest by the shortsighted pressures of special interests? As the world gets smaller and the stakes in freer trade get larger, the margin for allowable error in deciding this question gets progressively less.

Forty years ago, in the midst of a growing economic crisis at home and abroad, Congress enacted and the President signed the highest tariff law in the nation's history. This curbed the ability of foreign nations to sell to us and hence their ability to buy from us. Our higher tariffs induced other democracies to retaliate with higher tariffs against our gooods, notably farm products and machinery. Our exports shrivelled, intensifying our unemployment and deepening the Depression. The dollar weakened. The fabric of international cooperation further unraveled. Economic depression spread. Democracy foundered in many parts of the world. These were the seeds of World War II. *Over 1,000 American economists, including several signers of this appeal, protested against the ill-advised tariff legislation of 1930. They urged President Hoover to veto the bill. The bill was signed into law.*

We now seem on the threshold of another massive mistake, which would seriously damage the trade agreements system that since 1934 has replaced the anarchy of the 1920's and early thirties. Even if the present crisis should pass, there are signs of new ones ahead. A clear assessment of our national needs and goals in this important policy area is necessary.

Great progress has been made in removing the tariff abominations of 1930 and establishing the foundation for continued liberalization of world trade and for sound and sustained economic growth. There is much more to be done, and no time should be lost in charting the way. Many sectors of our national economy, however, are concerned over their ability to compete in an increasingly competitive world. The rising and increasingly diversified flow of imports from developed and developing countries alike has caused growing anxiety in many U.S. industries, unions and communities fearful of job displacement by foreign goods or by the transfer of U.S. production from domestic to foreign plants. The affected industries and workers note with concern the special advantages some foreign governments give their own industries and the highly restrictive barriers they impose against U.S. access to their own domestic markets. These sectors of our economy, and many of their elected representatives, seek government controls against import competition. They say the world has changed, and that our well-established freer-trade policy must also be changed, in fact reversed.

The world economy has indeed changed. Our trade policy must keep pace. But the changes we seek should be constructive and responsible. We should seek genuinely freer world trade and orderly domestic adjustment, not yield recklessly to pique and frustration at the difficulties of this rocky road. The rules of fair international trade need to be reassessed and up-dated. Appropriate use should be made of retaliatory authority already authorized in existing legislation to counter unreasonable foreign barriers against U.S. exports. New initiatives for further trade liberalization need to be taken for many reasons—e.g., to remove inequities imposed by old and new trade barriers, provide the most open consumer access to the widest international market, and maximize access for the developing countries to the world's best export markets. The adequacy of our own domestic policies for effective adjustment by U.S. business, labor and agriculture to increasingly free trade must be meticulously reexamined and up-dated.

The record of other economically advanced countries in implementing the letter and spirit of their trade-agreement commitments has in many cases been less than impressive, and the prospect for early reform less than encouraging. Many of our own trade barriers, such as the use of American Selling Price to limit imports of certain chemicals long after the infant U.S. chemical industry had grown to resilient maturity, are still formidable. These cause considerable irritation abroad and contribute to the reluctance of other countries to liberalize substantially their own import controls on goods and capital.

Our country's response to the adjustment problems of U.S. producers and to the need for truly reciprocal liberalization of trade barriers throughout the industrialized areas of the Free World should show clear determination to solve problems at home and foster close cooperation abroad. At present, however, it seems little more than rudderless drift. The Administrations' own efforts to restrict textile imports, without a coherent, constructive textiles policy that documents the need for such controls in the context of balanced government attention to the industry's needs, seem ill-advised. Congressional legislation imposing unilateral import quotas—even on textiles alone, considering the wider implications of such a move—would be as perilous to the nation's interest today as was the Tariff Act of 1930 four decades ago.

Today, as in 1930, a protectionist policy, explicitly curbing imports but implicitly cutting exports as well, would directly impair our own prosperity. Foreign countries would have less purchasing power and hence less ability to buy from us. They would also retaliate by raising tariffs or imposing further non-tariff barriers, and/or stiffening their resistance to requests that they liberalize their import policies. Prices in this country would tend to go up, reducing the real income of Americans, affecting especially those who can least afford it. Indeed the effects of new import quotas would almost inevitably be worse than the imposition of higher tariffs, impeding the private enterprise initiatives we extol so pridefully and tarnishing America as an example for others. Our leverage for getting foreign countries to reduce and hopefully remove their own import barriers and export distortions would be seriously damaged, as would other major objectives of U.S. foreign policy. Import controls would also be an unproductive and irresponsible answer to the problems and needs of industries and workers seeking government help against foreign competition. There are serious adjustment problems at home, and considerable cause for irritation at the treatment accorded our exports abroad. But the right answer does not lie in triggering a trade war. That would only make a bad situation worse.

We therefore urge Congress to reject import controls—direct or indirect, explicit or implicit. The bill reported out by the House Ways and Means Committee in August 1970 provides for and encourages such controls. If such a bill is passed by Congress, we urge the President to veto it. We urge instead a realistic foreign and domestic policy aimed at getting all countries to cooperate in furthering the expansion instead of the contraction of international trade, and at finding durable answers to the adjustment problems of U.S. industries, workers and communities.

We urge the earliest enactment of the Administration's interim trade bill as the barest minimum to continue the nation's avowed free-trade policy in meaningful form. Beyond this, we believe the time has come for a new U.S. initiative in both the foreign and domestic dimensions of trade policy.

(1) In foreign policy, the time has come for a U.S. invitation to all the industrialized countries of the Free World to come forward with their own initiatives on how all the advanced countries together might program the dismantling of all their artificial trade barriers and distortions in accordance with a realistic timetable and the rules of the General Agreement on Tariffs and Trade. The determination of the United States to explore and, consistent with our national interest, to chart a definitive and truly reciprocal course to free trade with as many industrialized countries and regional communities as wish to take this route should be clear and convincing. The need for at least equal access to these markets by the developing countries should be adequately and appropriately recognized. Industrialized countries and regional communities not participating in such a *free-trade area* should (for as long as they remain outside) expect to be denied equal access to the markets of those who do. The ultimate inclusion of all industrialized members of the General Agreement on Tariffs and Trade in such an agreement should be a priority objective of U.S. trade policy.

(2) In domestic policy, the time has come for an adjustment program ensuring orderly, constructive government attention to the adjustment problems and needs of industries, workers and communities seeking and needing government help against foreign competition. Workable escape-clause and adjustment-assistance

provisions of the trade legislation, to deal with emergency situations, are essential components of such a program.

We urge the Administration to move quickly and resolutely to raise the sights of the nation and the world to these goals. We call on the Congress to stimulate and ensure rapid and effective Administration attention to these new initiatives. And we call on all those in the business community, the labor movement, colleges and universities and elsewhere who understand the importance and urgency of these objectives to communicate their views to the President, their respective Congressional delegations, and the public at large.

Mr. STEINBERG. So, Mr. Chairman and gentlemen, the concern of the Congress with the competitive problems of various industries ought to be constructive concern with the real problems and the real needs of those industries.

The bill before you does not reflect constructive concern with these problems. In brief, if the textile industry needs Government help, then let us have a balanced, coherent, constructive textiles policy through which the Government brings to bear on the problem the best kinds of remedies the Government has available.

Let us have a shoe policy and a steel policy and an oil policy right down the line to the extent that Government help is needed. Without such a policy how do you know if imports ought to be restricted, and if they ought to be restricted, how do you know to what extent they ought to be restricted, and for how long they ought to be restricted.

Now, quotas are proposed on textiles, and yet we have no textiles policy.

They are proposed on steel, and we have no steel policy; on electronics, and there is no electronics policy, et cetera, et cetera, down the line.

Now, I think that Mr. Goldfinger today had a point when he, I think, expressed his concern about the adequacy of our trade policy and I, too, am concerned because I do not think it is adequate. I do not think that the executive branch of Government has been adequately responsive to the fears and the anxieties of American workers and American businesses in an increasingly competitive world. The executive branch ought to be concerned. If they are not adequately concerned, then, with due respect, sir, and gentlemen, it is the job of the Congress to see to it that the executive branch does what the executive branch ought to do and has never done in the entire history of the trade agreements program; in other words, it has never had a balanced, constructive, coherent policy to deal with the evolving adjustment needs of U.S. industries.

The time has come for that kind of policy.

Now, one final point. Regarding the trade statistics, my views, my fundamental views on this problem, Mr. Chairman, are expressed in testimony I presented before your committee about 4 or 5 years ago when you had hearings on this very subject of f.o.b. versus c.i.f.

I would only make this one point: if you are going to adjust the trade statistics in order to get a better picture of the competitive position of the United States, and this poses all kinds of problems, then I think it is important to make all the adjustments that are necessary, not just a few convenient adjustments.

One of the adjustments needed is to scale down the value of imports, to remove all those imports that are not competitive with American products.

There are many other things that have to be done, but it seems to me that, if you are going to make the adjustments, it is essential that you go all the way.

I will close with that, sir, in the interest of time.

Senator BENNETT. At this point, the previous witness indicated that most of the Japanese imports from the United States are not competitive with Japanese products, so we would have to scale down our exports. They want coal, they do not have coal; they import wheat, they import feed grains. If you are going to play the game on one side you have to play it on both sides all the way.

Mr. STEINBERG. But Japan, Senator Bennett, has access to many other sources of supply besides the United States.

I think we are talking about—what I was talking about—was the competitive position of American goods, and I think that is reflected in part, but only in part, in the level of exports and imports, exports from this country, imports into this country.

I mean, this is a very complicated subject.

Senator BENNETT. It sure is.

Mr. STEINBERG. And I think a big mistake would be made if you merely add freight and insurance onto the f.o.b. import figures, and think that now, at long last, you have an accurate picture of the competitive position of the United States. It is much more complicated than that. I wish there were more time to discuss it.

Senator BENNETT. Does Japan add freight and insurance on the basis of its imports?

So why shouldn't we deal on the same mathematical level?

Mr. STEINBERG. Senator, I have no objection at all to our going on a c.i.f. basis. But I think it is awfully important to understand why we are doing it. What are you really trying to measure?

Senator BENNETT. We are trying to get some kind of a means of equating the two sets of figures.

Mr. STEINBERG. Right. I have no objection to our going on a c.i.f. basis. I think there are some advantages to f.o.b. import figures because then you can separate out the freight and insurance. But I have no objection to c.i.f. data.

I just think there is a real problem here of how you interpret whatever sets of figures you have.

Senator BENNETT. I said Japan, but that is true of most other countries abroad with whom we trade.

Mr. STEINBERG. Right, on a c.i.f. import basis.

Senator BENNETT. Correct. I have no further questions, Mr. Chairman.

The CHAIRMAN. Thank you very much, gentlemen. Any further questions?

Senator HANSEN. Just one question, Mr. Steinberg.

Mr. STEINBERG. Yes.

Senator HANSEN. Isn't it a fact that probably the reason why Japan does so much business, buys so many raw materials from us, is that we are the few countries in the world today that will permit the importation into this country of the manufactured products from a nation that is putting our people out of business, out of jobs?

Can you name me another country that has demonstrated even one-fourth the willingness that America has to have people lose their jobs as we are losing them here?

Mr. STEINBERG. I am not sure, Senator, on the extent to which jobs have been lost. A lot of claims have been made about this, but I am not sure about the validity of those claims.

Senator BENNETT. What has happened to the radio manufacturing industry? Most radios with American labels on them are made now in Japan; are they not?

Mr. HIGHT. Senator, If I may reply to that, I think you will find that the Electronics Industries Association is quite deeply split on this issue. Some parts are made abroad and incorporated in assemblies here. In some cases, assemblies are made abroad with the American brand name.

I think the essential issue here is, does the consumer get a good product.

Senator BENNETT. That is not the essential issue.

Mr. HIGHT. It is not?

Senator BENNETT. The question was raised by the Senator from Wyoming, whether the trade pattern had resulted in the loss of jobs. Now, there are far fewer jobs in the manufacture of radios in the United States than there were before we began importing them or their components from Japan.

Mr. HIGHT. But, Senator, isn't it true that any time you have an international trade situation, some jobs are lost and some jobs are gained?

Senator BENNETT. That is not the point.

Mr. HIGHT. I think that is the point.

Senator BENNETT. He made a specific statement that there were cases in which we were willing to import things from abroad which we were manufacturing and because of economic conditions abroad we were importing products which could be sold in this country below the cost of American products and, therefore, the American manufacturers, or the foreign manufacturers, go abroad to make them, and people who are employed in this country manufacturing that particular product are no longer employed.

Mr. STEINBERG. Are they no longer employed, Senator, or have they been employed making other things, perhaps more sophisticated products?

I recall many years ago the Burroughs Corp. in Detroit transferred completely out of the United States to its plants in Western Europe its production of adding machines. The workers who were employed in Detroit making adding machines were then put to work making more sophisticated products, and this is the way the process is supposed to work.

Senator HANSEN. Like what?

Mr. STEINBERG. Like computers.

Senator HANSEN. Outside of computers, can you name another example that bears out the point you are making? The Senator from Arkansas this morning implied that our great opportunity for expanded exports would come in agriculture, and yet I think that most of your 5,000 economists would testify that if we are going to hold our own, we have got to move from low-cost products into higher cost products.

Yet, I submit that the record is replete with evidence indicating that these are the very areas in which we have been losing most of our jobs.

They have gone to Mexico, they have gone to Japan, they have gone to Taiwan, they have gone to Hong Kong, they have gone to Scotland, they have not come to America.

Mr. STEINBERG. Well, sir, all of this——

Senator HANSEN. And our unemployment; you were talking about what has happened to these jobs. Right now, I submit, it is 5½ percent. Have you any better figure?

Mr. STEINBERG. What is the reason for the unemployment, Senator?

Senator HANSEN. I have my ideas; obviously, you have yours. I do not think we agree.

Mr. STEINBERG. Senator, before you know whether——

Senator HANSEN. Before you assume.

Mr. STEINBERG. Before you know, sir, whether they electronics industry needs Government help and to what extent they need Government help and what kind of Government help they need, you have to make a thorough examination of the problem and formulate a policy to help the industry.

All kinds of suitable remedies should be used, even possibly restricting imports—I say that as a dedicated free trader—even restricting imports on certain categories where the inrush of imports may be very heavy, and where you have to buy time for the more constructive remedies to take effect. But how do you know whether you have to go that route, and the extent to which you have to go that route, and for how long, unless you have a balanced electronics policy? And we do not have that, sir.

I think that resorting to trade restriction is little more than a gimmick. It is not a constructive answer to the problem.

Senator HANSEN. I have no further questions. I just want to make one observation, though. I think Senator Talmadge pointed out that in the last 21 years, in 19 of those years if we were to consider all of the facts and get things on the same level, we have had a negative balance of trade.

My statement to you, Mr. Chairman, is that I have had enough. I am pretty well convinced. I do not need any further documentation. I think we are losing jobs.

Mr. STEINBERG. May I make one other point, Mr. Chairman, on this matter of shifting out of one product and into another. I suggest that you ask Senator Percy, of Illinois, what he did when he was president of Bell & Howell and discovered very soon after the end of World War II that Bell & Howell could no longer compete with the Japanese and Germans making 35-millimeter cameras.

Instead of coming to Washington and asking for import controls against 35-millimeter cameras, Bell & Howell just stopped making 35-millimeter cameras and shifted all their resources into what they knew how to do best, and I think they did very well.

Senator BENNETT. What did they do?

Mr. HIGHT. He is talking about still cameras, and they concentrated on motion picture cameras.

Mr. STEINBERG. Now, of course, there are other kinds of things, electronics and other things.

Mr. HIGHT. Mr. Chairman, one final thing. Could I put the appeal which you have in front of you in the record?

The CHAIRMAN. Yes. In fact, I was going to put it in if you did not.

Mr. HIGHT. I submitted to the committee two sets of the 4,900-odd names. I do not ask that you necessarily print this, but for your own records, I have two sets of the 4,900 economists by name and State.

The CHAIRMAN. It is a pretty good percentage of economists. How many economists are there in this country?

Mr. HIGHT. I would suppose—I do not know. You see, this is not a profession where you pass a bar examination or something like that. You simply assert you are an economist. It is an assertion and you work as an economist for your living. I guess in the order of 12,000, 13,000, maybe more.

The CHAIRMAN. Thank you very much.

Senator HANSEN. When I talk about the number of important people there are my wife tells me that there is one fewer than I think there are. [Laughter.]

The CHAIRMAN. Well, thank you very much, gentlemen.

The next witness will be Mr. Eugene Keeney, president of the American Retail Federation.

STATEMENT OF EUGENE A. KEENEY, PRESIDENT, AMERICAN RETAIL FEDERATION, ACCOMPANIED BY JAMES GOLDBERG, VICE PRESIDENT, GOVERNMENT AFFAIRS DIVISION

Mr. KEENEY. Thank you, Mr. Chairman.

The CHAIRMAN. Will you proceed, sir.

Mr. KEENEY. My name is Eugene A. Keeney. I am president of the American Retail Federation, a national organization which, through its 50 State and 28 national retail trade association affiliates, represents more than 800,000 retail establishments across the country. It is the only organization which speaks for retailing as a whole, an industry which employs nearly 11 million people.

I have with me James Goldberg, vice president of government affairs division of the federation.

We appear here today to express our thoughts on H.R. 18970, the Trade Act of 1970.

The American Retail Federation strongly opposes this proposal, for a number of reasons. The most basic reason is because it would interfere drastically and, in our view, unnecessarily, with an international trade in textiles, apparel, and footwear which benefits the overwhelming majority of Americans in their role as consumers.

The reverse of the coin is less obvious but equally significant; the bill would provide an artificial incentive for too many productive resources to be directed toward industries in which U.S. productive efficiency—and therefore our ability to earn incomes—is relatively low. It would do this by restricting export markets for those American goods in which our productivity—and therefore the ability of U.S. nationals to earn incomes—is relatively high. We would lose both as consumers and as producers.

Put this way, as the economist prefers to put it, it all seems very abstract. It can be made more concrete. The bill would directly raise prices for shoes and for textiles, both domestic and imported, in four different ways.

First, it would reduce the supplies of imported items which are relatively lower in price than their domestic counterparts, forcing consumers to purchase instead more of the latter. Exhibit A, attached to this statement, compares the prices of selected imported and domestic items of apparel, of essentially identical quality. These comparisons were supplied to the American Retail Federation by buyers for a number of retail establishments, and represent their best judgments of prevailing market conditions. The difference, especially when expressed as percentages, are striking.

Second, it would cut off some imports—especially of low-end goods—which have no domestic counterparts. They are not and would not be produced domestically even if there were no imports. For instance, more than half of all footwear imports retail at prices less than $3 a pair. Imports of such low-end goods would not merely be reduced in the same proportion as all imports. With limited quotas, there would be strong incentive to export to the U.S. merchandise with maximum unit value. This form of price increase would, of course, bear most heavily on those Americans least able to pay higher prices.

These include Americans whose circumstances this committee has been concerned very recently—the recipients of public welfare and social security.

Third, it would raise the prices of the goods that continued to be imported. Price competition among foreign producers for entry into our markets would be materially lessened once they were unable to expand their sales by lower export prices.

Fourth, it would raise the prices of domestically produced goods. No longer needing to fear that higher prices would lose them markets beyond the quotas, American producers could and would raise prices directly. Moreover, with a lessened spur of foreign competition, the pressure on them to become more efficient would be reduced, so that their costs, and then their prices, would tend to drift up even more.

It is clear that these consequences fly directly in the face of the enlarged interest in consumer protection recently evidenced both by the administration and by the Congress. The direct cost of quotas would thus be paid by consumers. But, it is argued, this may be a cost worth paying because:

(*a*) It will create, or at least protect, American jobs; and

(*b*) It will improve, or at least avoid a further deterioration of, the U.S. balance of payments.

I believe that neither of these advantages will ensue, and for the same reason; any reduction of U.S. imports as a result of quotas will be fully offset by a reduction of U.S. exports.

Reduced imports of textiles, apparel, and footwear would reduce the number of dollars flowing to foreigners. To some extent, this would directly reduce our exports, as well. But the main reason is that other nations whose exports would be hurt by our quotas would—as they have every right to do—impose equivalent barriers on U.S. exports. As a result, our balance of payments would not be improved; and we would export as many jobs as we protected, and, on the whole they would be higher-paying jobs. Many of these jobs would almost surely be in agriculture.

If a nation suffers from a chronic general shortage of jobs—that is, from chronically excessive unemployment—it cannot ordinarily expect to find the remedy in exporting its unemployment; the intended recipients will simply reexport it—if possible, back where it came from. The remedy for excessive unemployment, we know, lies in another direction completely—in monetary and fiscal policy.

If a nation suffers from a serious and persistent balance-of-payments deficit that threatens to exhaust its international reserves, the remedy again must be found elsewhere—in basic structural changes in its economy; or, failing these, in uniform and temporary emergency surcharges on all imports or a uniform export subsidy; or, failing all else, in a realinement of exchange rates.

In the case of the U.S. deficit, the most important structural change we need to accomplish is to halt domestic inflation. We will not help to halt inflation by unnecessarily and substantially raising the prices of goods that make a significant contribution to the cost of living. We would thereby tend, as well, to enlarge wage increases, and thus give an extra lift to the prices of everything we produce, including, of course, our exports and our goods that compete with imports.

In my view, the most dangerous of all consequences of the passage of H.R. 18970 is the danger that such action could set off a chain reaction of protectionism and economic nationalisms. During the great depression, nearly 40 years ago, we learned something of the disastrous effects—not only economic, but political, and ultimately perhaps military—of that kind of economic warfare. I hope you are aware that there is tinder lying around that would not be difficult to ignite. Protectionism and economic nationalism are sentiments found in every country. I should not want the United States to be the Nation that lit the match.

(Exhibit A referred to follows:)

EXHIBIT A.—RETAIL PRICE SAVINGS ON COMPARABLE KEY CONSUMER ITEMS [1]

	Retail price for imported item	Retail price for domestic item	Percentage saved
1. Mens dress shirts	$3.00	$4-5.00	25
2. Boys dress shirts	2.00	3.00	33 1/3
3. Mens knitted cotton sport shirt	2.00	3.00	33 1/3
4. Boys knitted cotton sport shirt	1.50	2.50	40
5. Womens tailored blouse	2.00	3.00	33 1/3
6. Womens walk short	2.50	4.00	37
7. Mens walk short	3.00	5.00	40
8. Mens zipper jacket	5.00	6-7.00	16 2/3
9. Boys zipper jacket	4-6.00	5-9.00	25
10. Mens ziplined raincoat	18.00	23.00	21
11. Womens raincoat	17.00	20.00	15
12. Boys ziplined raincoat	14.00	16-17.00	12 1/2
13. Girls play shorts	2.00	3.00	33 1/3
14. Umbrellas	4-5.00	6-9.00	33 1/3
15. Womens acrylic sweater	8.00	10.00	20
16. Mens acrylic sweater	7.00	10.00	30
17. Boys acrylic sweater	4.00	6.00	33 1/3
18. Girls acrylic sweater	4.00	6.00	33 1/3
19. Mens cashmere sweater (English)	25.00	35.00	27
20. Mens V-neck lambs wool sweater (English)	17.00	21.00	18
21. Womens cashmere sweater (English)	20.00	30.00	33 1/3
22 Mens worsted wool suit	70.00	100.00	30

[1] The term comparable means like items equal in terms of quality, style, size, fabric, workmanship, and customer acceptance.

The CHAIRMAN. Thank you.

Mr. KEENEY. Mr. Chairman, exhibit A is a chart of imports, domestic items and percentage saved. You have heard all the arguments today, and you will hear some more on Monday, representing retailers throughout the country. I do not presume to say that there is not merit on either side.

We keep hearing about polarization and division in our country today. There is great division as to what this legislative proposal will do as far as our country is concerned. It is difficult to look into the crystal ball, and you have one side that will say that the country is going to fall apart and that Smoot-Hawley will come to rule the day. To a great degree, these proponents have merit.

On the other hand, a number of our domestic industries have been suffering some hurt as far as imports are concerned, but this is the one world that Mr. Willkie talked about back in 1940, and it is here today when a plane can cross the ocean so quickly, when a satellite can give us almost simultaneously what is happening in other parts of the world.

If we put barriers up around our country, others will retaliate.

I think one of our administration officials said that pressure from one area politically will bring counter-pressure from some other area. It applies domestically. It applies internationally.

We would hope that the committee, when it goes into this issue and determines what major policy shift is made with respect to this quota proposition, it will consider that with all the facts and all the figures and all the statistics that have been given, we have not had a public hearing on textiles and on shoes before other than a legislative forum as to the hurt and as to the problems of both of these major industries.

It is unfortunate that now it is before a legislative body with the proponents on both sides who can present their views and issues, but the facts and the forum are not what it could be in a less adversary proceeding, where a governmental body could hear both sides and then come up with a report.

But possibly we have gone beyond this point. The retailers of the country, who represent consumers, are concerned with inflation, and retailers who are on Main Street throughout this country are having troubles as far as the consumers are concerned, prices keep going up, and up, and up, automobile prices have gone up; RCA has just announced an increase in television prices. Inflation is still at our door. This could be another opening wedge.

We would hope that some type of balance would be struck by this committee as it considers the pros and cons of this issue.

The CHAIRMAN. Thank you very much, sir.

Senator BENNETT. Mr. Chairman, I just want to make one comment. I have had a chance to look at the list of the economists on the list of the previous witness, Mr. Hight.

From my State of Utah, all but one of them are educators, they are all on college faculties, they are not people who have actually had experience in the business world. I think—I have looked at other lists, and this is the general pattern, so this represents an appeal by the academic economists to flood this committee with a list, and I think that the record should be made clear.

The CHAIRMAN. Thank you very much.

Senator HANSEN. Mr. Chairman, may I ask just one question.

Mr. Keeney, you represent some 800,000 retail establishments across the country, according to your testimony.

Mr. KEENEY. Yes, sir.

Senator HANSEN. Does their business go up, do their sales volumes increase, with unemployment?

Mr. KEENEY. No, it does not go up. Many areas in the country today are having problems with unemployment, especially the automobile centers. But retailers also service all types of consumers.

When it is forced to restrict its imports and turn to domestic rather than have a mix as far as merchandise is concerned, there will be a lower income consumer who will not be able to take advantage of the imports that he is able to do today.

An unemployed man who is trying to watch the pennies, and if he does not have an opportunity to buy an import, he will either not buy, which will hurt the retailer as well as the economy, and also cause some unemployment, but also will have to buy a higher priced item when he goes to the retail store.

So it is more of a mix, again, Mr. Hansen.

There is no absolute, there is no absolute in life today, but it is a balance that I would urge that this committee strike as they pursue some sort of amelioration of the problem.

Senator BENNETT. Maybe you would prefer to have the retailers selling only imported goods——

Mr. KEENEY. No, sir.

Senator BENNETT (continuing). Because they are generally lower, according to your scale.

Why should they sell any domestic goods?

Mr. KEENEY. Senator Bennett, there is an excitement about imports. There is nothing like competition in our free enterprise system today, as you well know, because you are a major exponent of the free enterprise system, and there is quite an excitement of the merchandise that imports bring.

Senator BENNETT. Leaving that aside and looking at the first item on your second page, you can provide a woman's acrylic sweater, which you say is like and equal in terms of quality, style, size, fabric, workmanship, and customer acceptance, with an import which retails at $8, and a domestic item which retails at $10.

What right has the retailer to offer his customer a $10 item which is exactly equal in value if he is there to serve the consumer, why should he not devote his entire effort to bringing imported acrylic sweaters into his store and point out that, "I am saving you 20 percent by limiting my purchases to imported sweaters."

Mr. KENNEY. Well, it boils down to certain basics that imports are a small percentage of the overall merchandise that is shown. But the excitement, the competition from an import, is something that the consumer has found when he walks into a store.

A retailer of a shoe store can have a domestic shoe and a Spanish-made shoe and he will find that a consumer will come in and will have a choice, and often the domestic is purchased over the import for some various reasons. But there is a choice that a consumer has, and if this bill goes through there will not be such a choice.

The CHAIRMAN. Look, the whole basis of your argument is that the consumer can get the same thing manufactured in a foreign nation at a much lesser price.

Now, if that is correct, why should he buy the domestic product at all?

Senator BENNETT. Why should you offer it to him?

Mr. KEENEY. You are delving into the subjectiveness of why a consumer buys, and for years we retailers have been trying to determine why a consumer buys certain things, and otherwise.

I think that there is no absolute answer as far as that is concerned, but, believe it or not when a shoe retailer has a foreign-made shoe and domestic shoe, they find that the domestic merchandise sells even better.

Now, you are talking about a subjective reason as to why a consumer buys. But it does seem to sell better, the domestic merchandise does move faster.

Senator BENNETT. I think you have been around both sides of that argument because just a minute ago you said there is an excitement——

Mr. KEENEY. There is.

Senator BENNETT. About buying a foreign-made shoe.

Mr. KEENEY. Yes. But also, for some reason or other, induces a number of consumers because more domestic shoes have been sold when there has been a mix with imported shoes, for example. I have talked to the top manufacturers and retailers in the country today.

Senator HANSEN. Mr. Chairman, if I could, just let me say that I happen to know our retail organization in Wyoming, and I can say that Mr. Keeney does not speak for all of those members of the National Federal who live in my State, and I know also that the people in the Wyoming towns would much rather pay a slightly higher price with hard cash that comes from a paycheck than they would to have the advantage of being able to buy the slightly lesser price with a welfare check.

Senator BENNETT. That is why this bill is going on the welfare bill. [Laughter.]

Mr. KEENEY. Senator, I am not sure that you are speaking for Wyoming retailers.

Senator HANSEN. I can speak for them, and if you think I cannot, just list for me a documentation of the ones I do not speak for. Will you do that? You can submit it for the record.

Mr. KEENEY. We have an association in Wyoming.

Senator HANSEN. Fine. I would like to have the specific names and you submit it for the record.*

The CHAIRMAN. Thank you very much.

Mr. KEENEY. You are very welcome, Mr. Chairman.

The CHAIRMAN. The next witness will be Mr. Weldon Barton, assistant director of legislative services of the National Farmers Union. Will you proceed, sir.

STATEMENT OF WELDON BARTON, ASSISTANT DIRECTOR OF LEGISLATIVE SERVICES, NATIONAL FARMERS UNION

Mr. BARTON. Mr. Chairman, members of the committee, I am Weldon Barton, assistant director of legislative services, National Farmers Union.

I have placed before you a rather detailed statement of the National Farmers Union's position generally on trade policy and of our position on H.R. 18970 in particular. With the committee's permission, I will present only the shorter statement of position on H.R. 18970 at this time, and ask that the more detailed statement be included in the hearing records.

The CHAIRMAN. We will print the entire statement.

Mr. BARTON. Although the Farmers Union recognizes the need to extend the President's authority to negotiate trade agreements under

*At presstime, Nov. 9, 1970, the material referred to had not been received by the Committee.

the Trade Expansion Act, we are deeply concerned that the net effect of H.R. 18970 as reported by the House Ways and Means Committee would be to carry the United States toward protectionism rather than trade liberalization.

Title I of the bill would retain, and freeze into law, the oil import quota system, despite contrary recommendations by the Cabinet Task Force on Oil Imports. Title II would impose new import quotas on textiles, wearing apparel, and footwear.

If the bill carrying these import quotas on textiles and shoes is enacted into law, the grant of presidential authority elsewhere in H.R. 18970 to reduce duties by 20 percent of present levels will, we can expect, be absorbed in the payment of tariff compensations demanded by our trade partners.

Indeed, as Ambassador Gilbert emphasized in his testimony this morning, it is questionable, highly questionable, whether the 20-percent tariff reduction authority is of sufficient magnitude to compensate for the restrictions imposed by the U.S. quotas on textiles and shoes.

As the American farmer fully understands, trade in agricultural and other commodities is a two-way street. He knows that U.S. import quotas on textiles and shoes will induce other nations to reduce his crucially important foreign markets for feed grains, wheat, cotton and other agricultural commodities.

I will not burden you at this time with statistical details. Pertinent statistics are provided in our longer statement for the record. However, allow me to emphasize that Japan is the largest exporter of textiles and shoes to the United States, and Japan is also the U.S. farmer's largest single-nation overseas cash customer.

The European Common Market is the second largest exporter of textiles and shoes to the United States, and the Common Market imported over $1.25 billion dollars of agricultural commodities in 1969. Several additional nations are also importantly involved in this textiles-shoes-agricultural commodities exchange relationship with the United States.

Mr. Chairman, the National Farmers Union is not afforded the luxury of looking at this bill in terms of its impact on "free trade" in any abstract sense—although a case can be made against it on this basis. The direct threat to farm exports and income posed by U.S. trade restrictionist actions was highlighted in a major speech just 2 weeks ago by Herbert F. Propps, specialist on agriculture and commodity affairs in the Office of the President's Special Representative for Trade Negotiations.

We concur with this view of the President's own adviser. Farmers Union is convinced that American agriculture will suffer direct and severe export and income losses unless the new import quotas are removed from this bill.

Although I would not try to minimize the problems faced by the textile, shoe, or any other industry, there is reasoned disagreement on whether import quotas are the best response to problems experienced by these industries at the present time.

Furthermore, H.R. 18970 without the textile and footwear quotas contains provisions to protect these, or other, industries if circumstances change. Chapter 2 of the bill gives the President full authority administratively to impose import restrictions in the case of particular industries or items if the Tariff Commission finds serious injury to domestic producers arising from import competition.

The authorization for the President to act whenever essential to protect our domestic industries, while striving wherever possible to keep open channels of world trade, is perhaps the most reasonable balance that can be struck in this bill. This authorization, without statutory-imposed quotas, perhaps will result in the maximum net benefits to the U.S. economy, considered as a whole.

Farmers Union strongly supports one provision added to the trade bill by the House committee. Section 342 of the bill provides that the Secretary of Agriculture—rather than the Secretary of the Treasury—shall have final authority to determine whether any specific article or class of articles is covered by the import restrictions under Section 22 of the Agricultural Adjustment Act, as amended.

This provision would allow the Secretary of Agriculture to close loopholes in the law governing the importation of dairy products, wheat, cotton, and peanuts.

We direly need a procedure whereby, when importers resort to tactics of circumvention, relief can be secured promptly. Section 342, by divorcing article classification for duty purposes from classification for quota purposes and giving the Secretary of Agriculture final authority to determine on the later type of classification, that is, classification for quota purposes, is designed to provide this reform. We urge retention of this provision by your committee.

In brief summary, National Farmers Union must oppose enactment of H.R. 18970 as reported by the House Ways and Means Committee. We respectfully urge your committee either to remove the objectionable import quota provisions, or withhold action until more reasonable and acceptable trade legislation is proposed for enactment.

(The complete prepared statement of the National Farmers Union, follows:)

Statement of the National Farmers Union

The National Farmers Union has a long history of support for the liberalization of international trade in agricultural commodities. We firmly believe that expansion of trade—including trade with the developing two-thirds of the world—generally is good for both the American farmer and the economy as a whole.

While Farmers Union is committed to liberal trade as a general goal, it is unrealistic to look in the immediate future to any automatically-operating international marketing system to solve our problems in the agricultural sector. This is true for at least two reasons. First, trade policies must be made in relation to the existing and emerging network of agricultural production patterns, national laws, international arrangements, and other elements of the world agricultural system. Secondly, even if it were possible to formulate trade policies unencumbered by existing circumstances, a completely unregulated international market situation would be detrimental to producers, processors, and consumers of farm commodities.

Some market regulations are essential for the following reason: instability of raw material prices—especially of agricultural commodities—hampers and endangers economic progress throughout the chain of economic activity from production through consumption. Capital investment by producers designed to increase the total output of raw materials must be made far in advance of the time when their products will be marketed. Uncertainty about farm commodity prices at the time that capital investments must be made can result in the wrong investment decisions by producers.

Likewise, investments in processing and manufacturing industries that use raw materials from farms must be made well in advance of their realization of profits from the sale of processed or manufactured products. It is true that consumer needs and demands for food and fiber products are relatively stable, and therefore can be fairly accurately predicted. Nevertheless, if faced with wildly fluctuating raw material costs, the manufacturer—like the producer of raw materials—must introduce a large uncertainty factor into his investment calculations.

To Farmers Union, the implications of these costs of uncertainty are rather clear. It means that we should avoid any futile attempt to establish a kind of quasi-Victorian competitive market equilibrium. Instead, United States trade policy should be explicitly directed toward the bold, imaginative, conscious building of workable international economic institutions. In a word, the correct answer is in the direction of *more trade negotiations*. The route to orderly change is through negotiations, mostly on a commodity-by-commodity basis, as authorized under the Trade Expansion Acts. The most promising international institution to bring order to agricultural trade relations is the treaty, or contract agreement. Such agreements, of which the International Grains Arrangement is the most successful example, set out obligations, rights, and procedures among nations or other trading entities.

An intelligent foreign policy must go hand-in-hand with a deep concern for the economic stability of our nation's farm producers in our agricultural trade negotiations. It is in the national interest to make every reasonable and workable effort to maintain and expand our agricultural exports. Our farmers must not be expected to bear along the full cost of that effort. Neither should they be expected to bear alone the cost of competition for domestic markets from heavily subsidized farm commodity imports.

We accord the same right and privilege to other domestic raw material and industrial producers. The net benefits of better international economic cooperation accrue to all the people, and the temporary costs involved should be borne by all the people. This means that in the case of both exports and imports, programs and policies should be established, as they have been in the case of the International Grains Arrangement and the Sugar Act program, to spread the cost to all the people instead of putting all of them directly on the small number of producers concerned.

Section 342 of H.R. 18970, as reported by the House Ways and Means Committee, provides that the Secretary of Agriculture (rather than the Secretary of the Treasury) shall have final authority to determine whether any specific article or class of articles is covered by the import restrictions under section 22 of the Agricultural Adjustment Act, as amended. This provision would allow the Secretary of Agriculture to close loopholes in the quota system governing the importation of dairy products, wheat, cotton and peanuts. It was added as a House Committee amendment to the draft bill introduced by the Administration last November.

The Farmers Union supports this provision. In previous testimony before this committee, we expressed our vital concern over loosely-drawn regulations that allow importers to evade quotas and flood our markets with agricultural products—usually those that are in over-supply abroad. This type of quota circumvention occasionally has bordered on dumping.

The long campaign by Farmers Union and others to curb imports of Colby cheese and other non-quota dairy products is a specific case in point. Although this particular loophole was finally closed, it took many months to complete the Sec. 22 proceeding that was necessary to obtain relief.

We direly need a procedure whereby, when importers resort to tactics of circumvention, relief can be securely promptly. Sec. 342, by divorcing article classification for *duty* purposes from classification for *quota* purposes and giving the Secretary of Agriculture final authority to determine on the latter type of classification, is designed to provide this reform.

We are alarmed that—while H.R. 18970 extends the President's authority to negotiate trade agreements under the Trade Expansion Act and empowers him to reduce duties by 20 percent of their present level—it would at the same time carry the United States far down the road to economic protectionism. Title I of of the bill would retain, and freeze into law, the oil import quota system, despite contrary recommendations by the Cabinet Task Force on Oil Imports. Title II would impose stringent import quotas on textiles, wearing apparel, and footwear.

The new quotas on these basic consumer goods will have the effect of negating any possibility for trade liberalization through use of the President's authority to negotiate duty reduction over the next three years. The Presidential authorization to reduce duties by 20 percent of present levels can be expected to be absorbed in the payment of tariff compensation to our trading partners for import-restricting actions by the United States under the quota provisions for textiles and footwear.

The quotas will negate tariff concessions the United States has already negotiated, thus subjecting the United States to compensatory claims. Indeed, it is highly questionable whether the 20-percent tariff reduction authority is of sufficient magnitude to compensate for the restrictions that would result from the quotas on textiles and footwear.

The American farmer knows that trade is a two-way street, and that it is impossible to maintain an upward trend in agricultural exports in the face of United States protectionism.

Consider, for example, our trade with Japan. Japan in 1969 exported $576.6 million of textiles and shoes to the United States—which made her the largest single exporter of these items to this country. Japan is also the U.S. farmer's biggest single-nation overseas cash customer, having received $933.6 million of U.S. commercial agricultural exports in 1969. This included $277.9 million of feed grains, $205.6 million of oilseeds (primarily soybeans), $119.6 million of wheat and flour, $52.2 million of cotton, and $44.7 million of tobacco.

The European Common Market in 1969 exported $555.0 million of textiles and shoes to the United States—making this the second largest exporter of these articles to the U.S. The nations of the Common Market imported a total of $1,269.0 million of U.S. commercial agricultural produce in 1969. This included $295.0 million of oilseeds (soybeans) $227.0 million of feed grains, $149.1 million of tobacco, $57.1 million of wheat and flour, $31.0 million of rice, and $23.7 million of cotton.

Of course Japan and the Common Market are only two of many nations and trading entities from which we can expect drastic retaliation against agricultural exports if the new quotas authorized in H.R. 18970 become law. Congressmen Corman and Gibbons, in dissenting views from the House Committee *Report* on H.R. 18970, included a table which shows the total 1969 value of U.S. textile and shoe imports—in relation to U.S. commercial agricultural exports—for 11 nations or trading entities. Especially since this table was inadvertently omitted from the published House Committee *Report*, we incorporated it into our statement:

SUMMARY TABLE: U.S. TEXTILE AND SHOE IMPORTS FROM AND AGRICULTURAL EXPORTS TO, SELECTED COUNTRIES FOR 1969

[In thousands of dollars]

	U.S. textile and shoe imports	U.S. commercial agricultural exports
European Community	555,000	1,269,000
Japan	576,584	933,583
United Kingdom	101,859	360,836
Hong Kong	283,492	54,475
South Korea	101,909	60,948
Taiwan	105,526	90,514
Spain	90,638	144,095
Israel	26,427	50,161
Switzerland	17,690	69,894
Philippines	25,195	64,471
Canada	40,330	509,168
Total	1,924,660	3,608,145

Source: The U.S. Department of Agriculture.

As this table indicates, quota restrictions on the textile or footwear exports of these nations would pose a clear and direct threat to maintenance of markets for U.S. agriculture.

This threat was highlighted in a September 24, 1970, speech of Herbert F. Propps, Specialist on Agriculture and Commodity Affairs in the Office of the President's Special Representative for Trade Negotiations. Propps emphasized the need for negotiations to be conducted on a sector basis, that is, for multilateral negotiations covering all trade barriers confined to the countries principally concerned with exports and imports of the products of a particular industrial sector. He concluded:

"More generally, if agriculture is to benefit fully in future negotiations—as we are determined that it shall—these negotiations must deal simultaneously with industrial and agricultural trade. Only in this way can we obtain agricultural concessions from countries which are not agricultural exporters, but which might give us concessions on agricultural products in return for reciprocal concessions we might accord on industrial products."

Even in the face of these obvious restrictions on trade negotiations, the case for quotas might be somewhat stronger if there was an imminent threat to the survival and health of the textile and shoe industries. But this apparently is not the case. During the decade of the 1960's, the net profit after federal income taxes has risen in both textile mill products and apparel and other finished products. The problem of the shoe industry, according to a June 1, 1970, report of the Task Force on Nonrubber Footwear, "is a relatively small problem in terms of adverse impact on an entire industry, upon employment, or upon the national well-being." The Task Force found a major problem in certain communities heavily dependent upon shoe manufacturing for economic prosperity, but concluded that the industry's difficulties "are not solely due to imports and the solutions must be found in a variety of directions."

Furthermore, H.R. 18970 *without the textile and footwear quotas* contains provisions to protect these, or other, industries if circumstances change. Chapter 2 of the bill gives the President full authority administratively to impose import restrictions in the case of particular industries or items if the Tariff Commission finds serious injury to domestic producers arising from import competition. But even in such circumstances, quantitative restrictions as provided in the bill may be unwise. For these may then become hardened into our trade policy, as exemplified by the freezing of oil import quotas into H.R. 18970. Instead of import restrictions, other steps—adjustment assistance, retraining, and other such measures—may be more preferable forms of relief.

In summary certain provisions of H.R. 18970 are consistent with Farmers Union trade policy objectives, and we certainly hold the position that the President's authority to negotiate trade agreements under the Trade Expansion Act should be extended. Considered in its entirety, however, this bill in its present form would move the United States in the wrong direction in its approach to international trade. It particularly endangers our agricultural exports, which are vital to protect the already-inadequate returns of the American farmer.

We must for these reasons oppose this bill. We urge your Committee to either remove its objectionable provisions or withhold action until more reasonable and acceptable trade legislation is proposed for enactment.

The CHAIRMAN. Thank you very much.

Senator BENNETT. Mr. Chairman, just one comment. The witness is against import quotas for general materials, but anxious to have the Secretary of Agriculture empowered to impose import quotas on agricultural material, which I can understand.

Mr. BARTON. Yes.

Certainly, this is an about-face.

Senator BENNETT. This is the name of the whole game, and I am glad we have an honest man before us who will admit that he has a self-interest in this question of quotas.

Mr. BARTON. There is a small difference here in that the quota system on dairy products is already part of the statutory law, and what we are trying to do now is work at effective administration of the law. We want to make it easier to close the loopholes in the existing statute.

Senator BENNETT. Whether it was put in the law a year or 10 years ago, whether we put it in next week, the essential principle is the same.

Mr. BARTON. Yes, I certainly agree with it. We are not completely clean in this respect.

The CHAIRMAN. Senator Hansen.

Senator HANSEN. I think you have made the point, Senator Bennett.

I was just going to ask Mr. Barton if he is aware of the total percentage of dairy products consumed in the United States that are imported. You speak about cheese and the other products. Do you know how much of our total dairy products consumed in the United States were imported last year?

Mr. BARTON. I do not have that figure precisely, Senator. I would be happy to get it for the record.

Senator HANSEN. I think I know what it is. I just wondered if you know what it is.

Mr. BARTON. No, I do not.

Senator HANSEN. Would you think it might be 15 percent?

Mr. BARTON. Well, I would think it would be lower than that.

Senator HANSEN. Would you think it might be five.

Mr. BARTON. Something like five or six.

Senator HANSEN. Would you think it might be 1½?

Mr. BARTON. I just do not know.

Senator HANSEN. It happens to be 1½, and yet you feel that there is need, despite your embracing the concept of free trade, you oppose a system which permits 1½ percent of the total diary products consumed in the United States to be imported, you oppose that system which would have that end result.

Mr. BARTON. We are not opposing that. We are simply saying the system is there, the import system, the quota system, is there, and we would like to have effective administration of it, and there are certain respects——

Senator HANSEN. Well, you were saying it had not been effective, and I was telling you last year it was about 1½ percent, and yet you feel there is a threat to American agriculture; do you?

Mr. BARTON. Not necessarily; no.

Senator HANSEN. You do not agree with the Wisconsin dairymen and Senator Proxmire then; is that what you are saying?

Mr. BARTON. No; I am not saying that, Senator. I am in agreement with Senator Proxmire and the Wisconsin dairymen.

Senator HANSEN. No further questions, Mr. Chairman.

The CHAIRMAN. Thank you very much.

We will meet again at 10 o'clock on Monday.

(Whereupon, at 4:45 p.m., the committee adjourned, to reconvene at 10 a.m., on Monday, October 12, 1970.)

TRADE ACT OF 1970

Amendments 925 and 1009 to H.R. 17550

Social Security Amendments of 1970

MONDAY, OCTOBER 12, 1970

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

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

Present: Senators Long, Anderson, Talmadge, Fulbright, Ribicoff, Byrd, Jr., of Virginia, Williams of Delaware, Bennett, Curtis, Miller, Jordan of Idaho, Fannin, and Hansen.

The CHAIRMAN. The hearing will come to order.

Prior to calling the first witness today, I am going to ask that all prepared statements be presented to the Chair in order that all prepared statements be printed, and I do this in the event there should be objection to the committee meeting during the session of the Senate today and so that everyone's prepared statement can be printed.

I have the prepared statements of the Honorable Maurice Stans, Secretary of Commerce, and General George Lincoln, Director of Office of Emergency Preparedness. Do we have prepared statements from Assistant Secretary of Agriculture, Mr. Palmby, Secretary of State Rogers, Senator Strom Thurmond, Senator Tom McIntyre, Mrs. Bruce Benson, Robert Jackson and Senator Ernest Hollings? Do we have prepared statements from them?

Then I am going to ask that the prepared statements be printed, and that thereafter the questions asked the witnesses appear in the record.*

This morning we are privileged to have with us the Honorable Maurice H. Stans, Secretary of Commerce of the United States. Are you going to be accompanied by General Lincoln or is he to testify separately?

Secretary STANS. We will testify separately, Mr. Chairman.

The CHAIRMAN. Then we are pleased to have you, Mr. Secretary, and welcome you before our committee. Will you proceed in your own fashion. Present your statement in chief and then we will lay it open for the committee to ask questions.

*The prepared statements were received by the chairman at this point.

STATEMENT OF THE HONORABLE MAURICE H. STANS, SECRETARY, DEPARTMENT OF COMMERCE

Secretary STANS: Mr. Chairman and members of the committee, I am pleased to have this opportunity to appear before you today to discuss the situation in international trade as it affects the United States, and comment in particular on the provisions of H.R. 18970. That bill was reported by the House Ways and Means Committee August 21, 1970.

A great deal of testimony was developed during the extensive hearings before the House Ways and Means Committee. Testimony by administration, congressional, and private witnesses provided comprehensive coverage of all aspects of the trade situation, both in general terms and with regard to particular products. Accordingly, I will confine my formal statement today to certain highlights. Of course, we will also endeavor to provide whatever additional information may be desired by the committee.

OUTLOOK FOR TRADE

Before discussing the bill itself, I would like to review briefly the trade picture at this time.

In my first appearance before the Ways and Means Committee on May 12, 1970, I pointed out that during the two decades following World War II we enjoyed substantial export surpluses which gave vital support to our international payments position, and which aided our efforts to meet our worldwide responsibilities. Our trade surpluses during the fifties averaged almost $3 billion annually. In the early sixties through 1967, they averaged over $5 billion annually. In 1968 and 1969, however, these large export balances disappeared. We had a trade balance just over $1 billion last year out of a trade turnover of approximately $70 billion.

Senator TALMADGE. Mr. Secretary, will you yield?

Secretary STANS. Yes, sir.

Senator TALMADGE. Does that trade surplus include the subsidized commodities?

Secretary STANS. Yes.

Senator TALMADGE. So on the basis of exchange of goods, then, it would have been a deficit.

Secretary STANS. It would have been a deficit, correct.

The CHAIRMAN. Also that surplus does not include insurance and freight, I take it, Mr. Secretary.

Secretary STANS. You are correct, Mr. Chairman.

The CHAIRMAN. If you put all that in that winds up to a deficit also. Is that the year 1969 you are speaking of?

Secretary STANS. I am speaking of the year 1969.

The CHAIRMAN. Here is the way our staff adds it up. They take the same 10 percent correction that the International Monetary Fund takes to put your FOB data on a CIF basis and then takes out the exports under Public Law 480 and AID which are just gifts for the most part to these foreign countries, with the result a favorable balance of 1.2 billion becomes a minus of 4.4 billion, and I will just ask that you be shown this table and that it appear in the record. That is the way our staff calculates it. We have been trying to get these figures presented to reflect our real competitive position in international trade. I would like the staff to show you that chart which I placed in the record, and have used it several times and that is the way the International Monetary Fund computes it.[1]

Secretary STANS. Mr. Chairman, there is no argument between us on principle. I agree with the fact that the figures I have quoted do not give reference to the AID program, the farm exports under Public Law 480 or the CIF charges on imports. Our figure on the result if those factors were taken into account differ slightly from yours. We have a figure of $3.2 billion as the deficit. I may say the disparity between these two methods of calculation has troubled us for a long time, and I think by the end of this year we will have a procedure whereby we will announce the trade figures in two different fashions so there will be no misunderstanding of what has happened.

The CHAIRMAN. I have never known you to be a party to that kind of misrepresentation of the facts to Congress. But you and I both agree that 1969 is a big deficit if you take everything into account and you recognize you are not being paid for these gifts for foreign commodities; isn't that right, Mr. Secretary?

Secretary STANS. That is correct.

The CHAIRMAN. So the thing that concerns me is there are some people in this country, and I believe we have some in our Department of State as well as some in business, who are just determined to mislead the American public to think that we are reflecting a big profit when we are losing money. Obviously when one says that you are making money doing this, and you are showing a profit, he can argue that you ought to do more of the same. But if you are losing money you ought to do just the opposite. So it just makes a great big difference as to what our policy should be for the future and I would hope that you are recognizing the fact that our trade is not such a big plus as is often indicated in the press reports on it, if you take everything into account.

Secretary STANS. I would agree completely.

This year, 1970, there has been a substantial improvement in our trade balance with current figures showing a likely surplus of perhaps $3 billion and this again includes the noncommercial transactions and it does not include the c.i.f. If those are taken into account it would still perhaps be a small deficit.

There are, of course, great differences of opinion as to the factors responsible for the changing trade picture we have witnessed in recent years. Although domestic inflation has been an important factor in the decline of our trade surplus, our success in the fight against inflation will not guarantee us a position of continuing trading strength, on either the export side or the import side. Many complex and often contradictory forces are at work, and the long-term outlook is unclear.

As our own technology advances, so does that of foreign nations, and, in an age of rapid and improving transportation and communication, that inevitably will mean ever increasing competition, and ever increasing opportunities for those able to compete in the world marketplace.

The increasing flow of imports of manufactured goods unquestionably has been felt by important segments of American business and labor. You are well aware of competitive pressures of these imports

[1] Table referred to appears at p. 95.

and of the concerns of your constituents that existing legislative remedies for import-related problems have been ineffective.

At the same time, foreign trade and investment barriers remain high, and in many cases they clearly hamper the flow of trade from the United States. We have also been concerned about this situation, as we know clearly the importance of export expansion to so many of our citizens. While much has been said about trade and payments balances, we must remain aware that the livelihoods of millions of our people are reflected in the figure which make up these balances.

In light of these complex factors, we believe that new interim trade legislation is clearly required in the national interest.

THE TRADE ACT OF 1970

We know there are many different views as to what type of legislation is required at this time, but we believe most strongly that such legislation should retain the flexibility needed to permit us to continue our world leadership in the liberalization of international trade. At the same time, domestic industries, firms, and workers engaged in both import and export oriented activities should not be left without remedies where remedies are required. We believe the proposal submitted by the President last November, H.R. 14870, with the additions I shall discuss below, will best meet our present needs.

We are pleased that many of the President's proposals have been adopted by the House Ways and Means Committee. In particular, I refer to the granting of limited tariff negotiating authority, new authority with regard to foreign barriers against U.S. exports, authorization of appropriations for the expenses we incur in our participation in the GATT, and acceptance of the idea that the American selling price system can be eliminated on certain benzenoid chemicals and other products. However, on ASP we prefer the administration's proposal as being more expeditious. Ambassador Gilbert has discussed these provisions with the committee in some detail, and I shall not go over them again at this time. I would like, however, to express our views on the textile question, to comment briefly on the DISC proposal, and to review those areas of the bill about which we have the most serious reservations.

TEXTILES

On June 25, 1970, I advised the Ways and Means Committee that as a result of the failure of a serious effort to negotiate an agreement with Japan on wool and manmade fiber textiles, the administration had reached the reluctant conclusion that the only means available to solve the textile import problem was through the textile quota provisions of a bill then pending in the House. We supported these provisions with a number of amendments which were adopted. We continue to support the textile quota provision of title II of the Trade Act of 1970.

The basic thrust of the textile provisions of this bill is in the direction that we have pursued for many months—the negotiation of viable international textile agreements. The quota provisions of the bill would be superseded by bilateral or multilateral textile agreements and may be waived for nondisruptive imports or where the President may find it to be in the national interest not to impose quotas.

The textile provisions of the bill originally before the Ways and Means Committee were amended in certain respects as suggested by the administration, and during the course of that committee's work various other changes and revisions were made. We have supported those changes and believe that the textile provisions of title II offer a sound basis on which to achieve a reasonable and effective solution of the textile import problem. (As noted by Ambassador Gilbert, we have some reservations about sec. 205(a) relating to administrative procedures.)

Without reciting the details of the textile provision I will note our view that they provide the kind of flexibility for the President that is essential to deal with a complex and difficult problem which affects not only American workers and firms, but the workers and businesses of many foreign countries.

The situation in the textile and apparel industries has been explored at length in public hearings. At the present time I would note that imports have continued to rise substantially during recent months. Imports of cotton, wool, and manmade fiber textiles and apparel through August of 1970 are running at an annual rate of 4.4 billion square yards equivalent, 21 percent higher than imports in 1969. In addition, I would like to give you one other statistic which is not in my prepared statement in the case of manmade fiber textiles and apparel. The rate in 1970 is at an annual level of 2.6 billion yards against 1.8 billion yards last year or an increase of 46 percent in 1 year in imports of manmade fiber textiles and apparel.

All of this is causing problems in employment, with the current seasonally adjusted figures showing a decline in the textile and apparel industries in September of 91,000 jobs from January of this year. Employment in this industry is at the lowest level since January 1966. Capital expenditures, sales, profits, and production have all declined this year as against last year.

A clear message of this situation is that a basic industry directly employing over 2.3 million workers, a growing number of whom are from minority groups, and which forms the backbone of the livelihood of hundreds of thousands of farmers and other producers, is threatened with serious disruption and dislocation if a reasonable pattern of imports is not established promptly.

We have always accepted the idea that foreign producers and workers should share in the growth of the domestic textile market and this will continue to be our approach to this problem under this legislation.

DISC

Title IV establishes a tax deferral for income from the export of U.S. goods. The Ways and Means Committee adopted the DISC proposal substantially as it was submitted by the administration and with few changes.

DISC will help keep jobs in the United States and will benefit the balance of payments by improving the international competitive position of our exporters. This competitive aspect is important. We are making good progress in improving export credit facilities and developing our overseas promotional services. However, we are not yet providing our export producers and merchants with tax treatment comparable in effect to that accorded exporters in other major trading countries.

Many different types of export tax measures have been considered. Others were put forward by interested segments of the business community. For a variety of reasons—unworkability, excessive cost, ineffectiveness, or violation of our international commitments—none was wholly acceptable. We believe DISC fills all the specifications.

This belief has been confirmed by business reaction to DISC. We are receiving endorsements from all the leading trade organizations. This support is important because DISC will succeed or fail depending on the extent to which businessmen actually use it. Just a few days ago the Committee on Small Business of the National Export Expansion Council adopted a resolution urging speedy enactment of DISC.

It should be understood that the main purpose behind the DISC is to remove unequal burdens which now encumber our exporters and to give U.S. companies more nearly comparable tax treatment to that enjoyed by their foreign competitors. This international competitive aspect applies to large as well as small companies, and it would be unwise to limit the DISC to any particular sized company.

I am confident that the DISC will materially help our exports, and in so doing will help create and maintain jobs in the United States.

I would like to add another word to that. It is incomprehensible to me that labor should find any difficulty with the DISC proposal. The sole purpose of it is to provide incentives to American companies to build their plants in the United States and export from here to other countries instead of building plants in other countries and depriving American labor of the jobs. The cost to the Government is small in relation to the benefits to the economy by keeping these jobs in the United States.

OTHER MATTERS

The President has made clear our general dislike of import quotas. We have recognized that in some unusual situations they may be required, and in such cases we have put them into effect or recommended their adoption to the Congress. However, the current bill (H.R. 18970) includes quota provisions which we deem undesirable.

We do not believe, for example, that the footwear import situation warrants the inclusion of footwear articles under the coverage of title II, and we do not support that action. An interagency task force established at the direction of the President concluded this year that import quotas were not the answer to the problem. Following that report the President requested the Tariff Commission to conduct an investigation under the escape clause provisions of the Trade Expansion Act. This investigation is now underway and, as Ambassador Gilbert pointed out, if the amendments to the escape clause and adjustment assistance criteria proposed by the administration are adopted while this investigation is in progress, they will apply to the Commission's determinations. It is our view that an appropriate program for the footwear industry has been proposed and that we should not resort to the extensive provisions of title II for footwear.

Ambassador Gilbert also set forth the other provisions of the bill about which we have deep reservations, and I shall not discuss them at length here. I wish only to reiterate our concerns about the inclusion of tariff quotas on mink fur skins, and glycine, the excessive loosening of the escape clause and the requirement that any action to restrain imports for national security reasons use a quota control.

In conclusion, although the bill has provisions about which we have reservations, there is much in it which we strongly support. Accordingly, I urge the committee to give serious consideration to these reservations so that the bill will reflect a balanced approach to our trade policy and will advance our national interest.

The CHAIRMAN. Thank you very much for a very good and succinct statement, Mr. Secretary.

A couple of things I would like to ask you about, and I am going to ask that we all limit ourselves to the 5-minute rule the first time we ask questions of the Secretary so that everyone can have an opportunity to interrogate the Secretary and we will consider having a longer time for those who might want to ask further questions.

Mr. Secretary, I presented the chart to show how bad our balance of payments is. Last year we had a $7 billion balance-of-payments deficit and I understand it is running at about that rate for this year. You are well aware of that, I am sure.

Secretary STANS. Yes.

The CHAIRMAN. It is a very serious problem isn't it?

Secretary STANS. I don't think there is any question about it.

The CHAIRMAN. The overall problem has not shown any real improvement.

Secretary STANS. We have to improve our balance of payments.

The CHAIRMAN. In other words, we can argue about FOB and the CIF with regard to our balance of trade. But that doesn't take into account the tourist trade where we have a great big deficit, and it doesn't take into account other aspects of our foreign accounts If you look at the overall problem we really have a very serious balance-of-payments problem and it has been going on for quite awhile; hasn't it?

Secretary STANS. Yes; I think there has only been one year in which we had a surplus in our balance of payments during the last 10 years.

The CHAIRMAN. Looking at it on the liquidity basis we appear to have a surplus in 1968 of $170 million and that is because a great number of those items were pushed over into 1969 so 1969 we show up with a deficit of $7 billion which is about twice the average. So just looking at the figures I have here from 1960 through 1969, it appears that the only year there that we show a surplus is a fluke because a great number of the items that would have fallen into 1968 occurred in 1969. In 1969 it is just twice as bad as it was in the average year. Over the whole 1960-69 period it looks like we are running a deficit averaging $2½ to $3 billion a year. That is about the way it looks on a liquidity basis which I am told is the most proper basis to look upon it. Is that about the way it looks to you?

Secretary STANS. Yes; except I would estimate that at the moment the problem is a little larger than that figure would indicate.

Our estimate of the transactions that took place in 1968-69 is that the figures of 1968 would have shown a deficit of about $2.5 billion if that were adjusted out of 1969, and 1969 would have shown a deficit of about $4.5 billion. It is too early to know whether we will improve on that $4.5 billion this year, and if so, how much, but at the moment I measure the problem as one of about $4 billion that we have to do something about.

The CHAIRMAN. Yes.

Now, the DISC is intended to help with that. But here is the thing that concerns me. The General Agreement on Tariffs and Trade did not make a distinction between a nation's right to rebate indirect taxes and its right to rebate direct taxes, although about 1960, this Nation agreed to an interpretation which would make that distinction.

We have been negotiating this border tax position a long time. The U.S. Representative to the GATT made a very strong and forthright statement on the inequities in the GATT interpretation back in April 1968, which I am going to include in the record at this point. I hope we still take a firm stand on this issue.

(The statement referred to follows:)

STATEMENT BY REPRESENTATIVE OF UNITED STATES ON BORDER TAXES BEFORE GATT WORKING PARTY, APRIL 30, 1968

The United States welcomes the convening of this Working Party. We realize that the examination we are about to embark upon will be complex, and that fundamental policy issues regarding governmental intervention in trade will be raised. Nonetheless, we believe that it is essential at this time that the entire question of border tax adjustments be re-examined, and we hope that the appearance of such strong delegations is an indication of the desire of all of us to deal with this problem constructively and expeditiously.

When the present GATT language was drawn up more than two decades ago, the question of border taxes did not appear to be a major one. Levels of indirect taxes were much lower. Under these circumstances, overlying simple and sweeping assumptions about tax shifting seemed acceptable, and already existing practices were incorporated without searching examination. The rules were drafted in very general terms. The United States at that time had no pressing reasons for seeking more elaborate provisions which provided more equitable safeguards for its trading position. On the contrary, at that time the United States was conscious of the need to assist other countries in relieving the pressures of the so-called dollar gap and the requirements for post-war reconstruction. Little detailed attention was paid to a problem which might hypothetically arise which would be harmful to our then strong payments position.

Times have changed, and the United States must now pay very careful attention to rules and practices which are unfairly prejudicial to our trading interests. As President Johnson stated in his 1 January statement on this issue, "We must now look beyond the great success of the Kennedy Round to the problem of non-tariff barriers that pose a continued threat to the growth of world trade and to our competitive position".

More generally, the effect on trade of border tax adjustments and other non-tariff barriers is relatively much more important multilaterally now than when the GATT was drawn up. Since that time, tariffs have become considerably less of a hinderance to trade, and quantitative restrictions have been substantially reduced in number and scope. Border tax adjustments have been placed in sharper focus by these developments particularly since there has been a steady increase in the rates and coverage of indirect taxes in many important trading countries. Most of this increase has been reflected in higher border tax adjustments. In some cases these rates are very high and cover almost all traded products. Consequently, in some countries the border tax adjustments on many items are well in excess of the tariff rate, and changes in border tax rates may often dwarf recently negotiated trade concessions.

When the current practices were in their early stages of development, principally after World War I, indirect taxation tended to be confined to sumptuary taxes on a limited number of goods or to low-rate general taxes. Border tax problems were then simpler and relatively little attention was paid to the border tax issue. Now, the general growth of indirect taxes has made prominent the issue of border tax adjustments, and a major re-examination is essential. But the problems have recently been further accentuated by the series of upward changes in border tax adjustments which have taken place in the past few months, and by the variety of new changes contemplated by various member countries of this Working Party. These changes, coming as they have at a time when the international balance-of-payments adjustment process is already under strain, have exacerbated a serious multilateral trade and payments adjustment problem.

For some time now, both in international organizations and in bilateral consultations, United States representatives have indicated a growing concern over the present arrangments on border tax adjustments and their effects on trade. As early as July 1963, the United States proposed in the Organisation for Economic Co-operation and Development a comprehensive study of the problems of border tax adjustments and their effect on trade. Our concerns are well-documented in the various discussions and consultations held in that Organization. Also, in the GATT during the past several years, United States representatives have at various times suggested that this problem needed to be explored more fully. Since these adjustments are governed principally by the GATT, under Articles II, III and XVI in particular, we believe that a GATT review of its own rules is now in order. We believe that the Working Party should review the relevant rules in these articles with a view toward amending them or reaching new agreement on their interpretation and application in light of the current world trade and payments situation and of the need to improve the GATT in our continuous search for fairer trading rules and practices.

We have not come to this Working Party with fixed and inflexible views as to the results it must achieve. We wish the discussion to be a wide-ranging one. There will undoubtedly be other members of the Working Party who will wish to raise aspects of the problem which have not yet occupied us, or to present substantive argumentation to develop points that we have made. We shall welcome such contributions.

There are several general problem areas with which we should like to deal in this Working Party.

First, we should like to have a serious comprehensive discussion of whether there should in fact be border adjustments to compensate for national differences in taxation. There are no adjustments for a wide range of government measures which directly affect prices, nor for many forms of taxation which affect prices. Why then should governments make specific border adjustments for certain types of taxes? When governments adopt new domestic economic policies which have side effects on trade or payments, domestic action is not necessarily accompanied by offsetting action to neutralize the balance-of-payments effect. Many government actions, for example, affect general price levels. But only in the case of indirect tax measures is there an institutionalized provision for such offsets. What is the characteristic of indirect taxation that makes it uniquely qualified for automatic border adjustments?

If there are to be border adjustments, then they should be designed to allow no more adjustment at the border than is warranted by the impact on prices caused by taxes. From this point of view, we doubt that the current GATT rules and border tax practices are a good approximation of reality. The underlying assumption of the current rules is that certain kinds of indirect taxes are always fully passed forward in prices to the ultimate buyers of those goods, but that direct taxes and other indirect taxes are never passed forward to the buyers of those goods. Several issues arise out of this theoretical distinction.

Under present rules, it is unclear whether certain border tax adjustments are legal or not. In the first place, the definitions of direct and indirect taxes are by no means unanimously agreed. The GATT itself does not refer to the distinction, and the report of the Experts Group on this question is ambiguous in many respects. This is not surprising. Even today, economists have difficulty in defining direct and indirect taxes, depending upon the conceptual framework within which they are working and the purpose for which they wish to find definitions. The distinction between taxes which are shifted and those which are not is generally considered insufficient for analytical purposes and distinctions are often made between taxes which are meant to be shifted (whether they are of not) and those not so meant; between taxes on expenditures and taxes on receipts, and taxes on business enterprise as opposed to taxes on individuals. There are many examples: some authorities consider property taxes as direct, and others consider them indirect; some authorities consider employer contributions to social security as direct and some as indirect. In the second place there is wide diversity of opinion of just which taxes are "levied on" or "borne by" goods. The practice of certain countries varies significantly from the practice of other countries on this point. In the third place, under current rules, countries have had difficulty in assigning precise border adjustments to products in relation to taxes on those products. Averaging has often been used to determine the precise amount of adjustment at the border for some taxes removed from the last stages of production. The averages, because of the nature of the problem, have sometimes been based on sweeping and dubious calculations. The current system allows, and perhaps even encourages, imprecise arithmetic to determine the amount of adjustments. In these cases, imprecision often can mean continuous pressure for upward adjustments as a result of protectionist desires.

Putting aside these problems of classification and imprecision, there is a fundamental issue. Even when one is talking about relatively easily classifiable taxes, such as income and sales taxes, the economic validity of the distinction implied by the GATT between direct and certain indirect taxes is open to serious question. We think it is a fair statement to say that economists generally believe that indirect taxes are neither always nor fully shifted forward, and that direct taxes are seldom borne fully by the producer. There are differences of view on the extent of forward shifting of direct and indirect taxes but the extreme assumptions underlying the present GATT provisions are patently wrong. Therefore, a border adjustment equivalent to the full internal indirect tax has the same effect on international trade as an export subsidy or an additional customs duty on imports. Similarly the failure to make border adjustments for that portion of direct taxes shifted forward into prices penalizes the domestic producer vis-a-vis his foreign competition, both at home and in export markets. This handicaps countries relying primarily on direct taxation.

Well-known economists and fiscal experts brought together in a symposium organized by the Secretary-General of the Organisation for Economic Co-operation and Development in September 1964 reached conclusions along these lines. In brief, the conclusions of the experts were: 1. "In practice, indirect taxes are not fully shifted into product prices. . ." and 2. "Certain direct taxes, and particularly the corporation profits tax, may be partially shifted into product prices, although the degree of shifting may vary from country to country."

Similarly, the Business and Industry Advisory Committee to the OECD (BIAC) in a report on the problem of tax shifting stated: "In a strongly competitive situation the prices obtainable—and hence the degree of tax shifting—are substantially determined by the market itself." The BIAC study on tax shifting found that while producers normally try to shift all taxes, their ability to do so is determined by a range of factors, including the state of the business cycle, the producer's control over his market, and institutional factors which vary from country to country.

Thus, it appears to my delegation that the GATT rules create the inequitable situation where indirect taxes which are not fully shifted forward to the consumer can be rebated on export but corporate income taxes which are shifted forward to the consumer cannot be rebated on export. The inequity also exists with respect to the use of compensatory import charges.

In summary, the present GATT provisions on border tax adjustments do not neutralize the effects of taxes on trade. Instead, they are export promoting and import restricting for the indirect tax countries. The basic assumptions underlying the GATT provisions are not realistic. The full border tax adjustment provided for with respect to indirect taxes constitutes both an export subsidy and an import surcharge. Adjustments for indirect taxes should be eliminated, or they should be reduced under carefully circumscribed conditions, or some comparable advantage should be granted to countries who do not have heavy indirect taxes to balance the advantages now granted to the indirect tax countries.

This brings me to the second basic, general problem area which we wish to have examined. That is the question of changes—that is to say, increases—in rates of border tax adjustments. Many countries have made or are making increases in their border tax adjustment rates. Some of the same countries, as well as a number of other countries, are planning to increase their border tax rates in the near future. These changes will raise obstacles to exports into their markets and give price advantages to their products in export markets. We are particularly concerned in cases where tariff concessions which we had obtained by reciprocal bargaining have been offset, or are currently threatened by new or increased compensatory import charges and by export rebates affecting other markets where we have received concessions.

These changes take two different forms, although they are sometimes mixed together: sometimes, changes are made on the argument that an adjustment from undercompensation to full compensation at the border is allowed. Sometimes changes are made in relation to a changeover from one system of indirect taxation to another system of indirect taxation.

Quite apart from the question of price shifting, changes raise fundamental problems. Once a country has established its rate of domestic taxation, its rates of border tax adjustment, its tariff rates, and its exchange rates, then any increase in the rates of border tax adjustment will create new advantages for the country's trade. Clearly, a change from so-called undercompensation to some higher, so-called full compensation level has markedly favourable effects on the trade of the country making such a change.

The changes which have recently taken place and which are soon to take place have intensified the balance-of-payments problem of my country. We believe that these changes have a fundamental adverse effect on the balance-of-payments adjustment process. The changes have been made even by countries which are in substantial payments surplus, and who ought to be seeking ways to avoid exacerbating balance-of-payments difficulties of other countries. The United States Government, in the framework of international co-operation, is presently seeking to achieve equilibrium in its balance of payments in a manner conducive, in the long term, to an increased flow of world trade. Increases in the level of border tax adjustment operate directly against these efforts. There is understandable interest in harmonization of their tax systems by the members of the European Communities. The shift from a turnover to a value-added system may be applauded as a tax simplification measure, but the increases in border tax adjustments which accompany such action can be harmful to the process of achieving a better pattern of multilateral payments balances.

In saying this we recognize the right of each country or group of countries to adopt any tax system it chooses. But, I repeat: the concurrent increases in border tax adjustments by surplus countries can be disequilibrating and contrary to the balance-of-payments adjustments which are needed internationally. Taking into account the basic problems which require new examination, and mindful of the urgencies brought about by the present and planned changes in the border tax adjustments of some countries, the United States Government respectfully requests that all countries contemplating changes in border tax adjustments refrain from increasing the level of their adjustments pending completion of the work of this Working Party. This is a difficult request to meet. We recognize the awkwardness it may create for certain countries. But we believe that these planned changes will very seriously exacerbate an already very difficult international trade and balance-of-payments situation, and that a standstill for the time being is a modest step compared with the general difficulties further rate changes may create for the United States, and for all countries.

A third general problem area which we believe requires careful and detailed examination is the ambiguity in present rules and the need for a more precise code of practices relating to present rules and any changes which might eventually be contemplated by this Working Party. We are concerned with the ambiguities already referred to regarding distinctions between direct and indirect taxes. An attempt must be made to clear up what is legitimate and what is not. The question of what is meant by the terms "levied on" must be re-examined. Averaging and allocating practices should be examined. The valuation bases for assessment of border adjustments should be examined. Where a product is not produced in the home market, serious doubt exists that border adjustments should be made. Cases where production at home may be provided with special exemptions or escapes from taxes while at the same time requiring border tax adjustments on similar foreign goods should be examined. The broad scope for abuse of turnover tax systems, because of the ambiguity in them, should be examined. Ultimately, the question of what is "levied on" a product must be re-examined. New tax systems which might be adopted should be caught up in this basic review.

In order to assist other delegations in assessing the significance of present practices and the scope and dimension past, present, and projected developments in border tax practices in a number of countries, we shall make available to other delegations some descriptive information we have collected on border tax practices in a number of countries. We would welcome comments upon and additions to this compilation. Its purpose is to provide background as to why we believe the problems are growing in number, and why the work of this Working Party is a matter of urgency.

We would hope that in due course certain OECD documents can be released generally to members of this Working Party. Eventually, the documentation of this Working Party itself may grow large. The subject, as I said at the outset, is extremely complex. We believe, however, that it is extremely important, and that new approaches must be found, in spite of the great burden of work which it will place upon us.

The Working Party will in due course reach conclusions. We hope these conclusions will take the form of recommendations to change certain aspects of the GATT rules, and new interpretations of existing rules which might, perhaps, take the form of a Code, or a multilateral agreement of some kind. As I stated earlier, our ideas are not fixed. We would welcome suggested approaches by other countries. We are guided by certain broad considerations. We question whether there is a sound conceptual basis for any general border tax adjustments. If, however, it is a widely held view that some forms of border tax adjustments should continue, we believe that these border adjustments should not act in such a way as to give an unfair advantage to countries with one type of tax system and to penalize countries with other types of tax systems. If border tax adjustments are to serve the purpose of neutralizing the effect on trade of price and resource distortions caused by taxation systems, the rules should not have the effect of encouraging countries to adopt one sort of tax system over another sort of tax system, merely because the GATT rules on border taxes give trade advantages to one system over the other. We believe that a country generally should be able to choose its tax system primarily because of domestic considerations without regard to trade advantages conferred by GATT rules on certain tax systems. Finally, we believe that the border tax adjustments, and changes in them, should not be set or operated in such a way that they exacerbate the international balance-of-payments adjustment process.

The CHAIRMAN. Now, in view of the fact that the GATT agreement was negotiated mainly for the purpose of helping the other fellow to begin with, and that interpretation was agreed to which could easily be construed the other way, wouldn't it be a lot better for this country to just adopt a policy where we will rebate taxes paid in the manufacture of these commodities for export as the foreign governments are in practical effect doing. Then just tell them that was a faulty interpretation we agreed with and we are going to find it necessary to rebate our direct taxes in order to protect our balance of payments. Why don't we do something like that which would do a lot more to help our exports rather than trying to vote this DISC thing into effect. I am not necessarily against the DISC, I would just like to ask why don't we do something more effective than that.

Secretary STANS. I would agree with you that if we were to adopt the proposition that we could apply the same kind of border tax system that the European countries have, it would be a very substantial advantage to our trade.

At the present time the Europeans are negotiating among themselves to harmonize their indirect tax system and their border taxes at an uniform rate which we expect will be around 15 percent. This means they have a 15-percent advantage against us in trading in third countries, and that a large part of our goods which have already paid all of our taxes going into the Common Market countries would have to pay another 15 percent.

However, I don't think we have any basis for adopting unilaterally a 15-percent border tax on imports unless either the other parties to the GATT agree with us that we can or unless we are prepared to see the effective dismantling of the GATT agreement because we have no authority under GATT, as now interpreted to adopt such a tax.

The CHAIRMAN. Well, it seems to me that the first thing we ought to do is to start publishing our figures the way the other fellow is publishing his so we are not reflecting a profit when we are actually losing money on our balance of trade. Then we should show them what everybody agrees and what even our trading partners are concerned about, our desperate situation in balance-of-payments problem and tell them this is what we are going to have to do. In effect that is what you are recommending here about Japanese textiles, you had to say to them, "Now, here if you can't work this thing out, fellows, and quit putting our American producers out of business, we are going to have to take measures to protect the American market." And it seems to me we ought to do something like that with regard to the bigger problem and say "All right, now this we will have to do, and if you can cooperate with us that is great, please do, but if you are not going to cooperate, that is how we are going to be compelled to do business." Don't our trading partners do about that kind of thing when they find themselves in a parallel situation.

Secretary STANS. I am afraid they do. They say just that and we are left in many cases quite helpless.

I would say this, Mr. Chairman, I would urge very strongly that the DISC proposal be enacted at this time and made effective as a means of stopping the outflow of American plants to other countries.

If it is possible to work out any kuid of a modification of the GATT arrangements to permit us to apply border taxes or if we go to a value-added tax in the United States, as some people have proposed, we will be able to redress that competitive balance that we now have with many other countries. I think, however, that is a long process and I would hate to have to wait giving American exporters a competitive incentive, and inducing them to keep their plants in the United States until we can redo the GATT arrangement or until we can even redo that one provision in GATT. I think we need incentives right now to be competitive.

The CHAIRMAN. I can show one way that we could get around the thing in a hurry, Mr. Secretary. We could just say that we will take these income taxes and give any company the option to pay that on a unit basis, which wouldn't change his tax liability at all domestically but then say that having agreed that he can pay it, he can regard it as an excise tax payable on a unit basis we could then proceed to rebate it.

Now the GATT people might argue about it but at that point we could say to them "Well now, maybe you don't agree that this is an indirect tax but we think that it is an indirect tax and that being the case we so regard it and we will rebate it."

Secretary STANS. Well, it is a very ingenious idea. I can say, Mr. Chairman, that the administration is very seriously studying right now the whole question of value-added taxes and border taxes, and it may be that we will have some recommendations in that respect through the Treasury Department early next year. It is a matter that has concerned me for a long time because we are at a competitive disadvantage, and I think something should be done about it.

The CHAIRMAN. Senator Anderson?

Senator Williams?

Senator WILLIAMS. Mr. Secretary, to what extent are the members of the European Common Market members of the GATT?

Secretary STANS. They all are.

Senator WILLIAMS. All are?

Secretary STANS. Yes.

Senator WILLIAMS. Under what provision of the GATT can they establish a border tax and at the same time prohibit us from establishing one?

Secretary STANS. I don't have the precise section before me, but it is a provision that allows the rebate to exporters of indirect taxes that they pay, and causes the assessment of indirect taxes against imports into those countries. These indirect taxes are, in effect, sales taxes, which are called by various terms, cascade taxes or value-added taxes.

Senator WILLIAMS. Well, isn't it an interpretation of article 16 which was agreed to some time back at the time when we had more of a surplus and we were feeling a little more lenient?

Secretary STANS. I understand that is right; Yes.

Senator WILLIAMS. I just wondered if that interpretation would have to stand indefinitey.

Secretary STANS. Well, we have had preliminary discussions with other countries of GATT which make it quite clear that they are not willing at the present time to accept any modification of that interpretation.

Senator WILLIAMS. But the regulation, the article it does not carry any distinction as I understand it which give to them the right to establish any kind of a tax to which we do not have the same right isn't that true, except some agreement that was entered into a few years back?

Secretary STANS. I am not sure of the origin of the provision. I just know that this is the interpretation which the other countries put on it as of this time and that they are extremely reluctant, in fact, totally unwilling, to accept any modification of it to help us.

Senator MILLER. Would the Senator yield?

Senator WILLIAMS. Just a moment. I can understand their reluctance and so forth, but after all, we are running our own affairs.

Yes, I yield.

Senator MILLER. That provision that the Senator refers to I understand was a clarification by, agreed to by our State Department in 1962. It was an interpretation matter. It was not a matter of the law, and was a clarification, so-called, made by our State Department in 1962. I think the question you are really asking is how binding it is on us.

Secretary STANS. We of course have the right to adopt an indirect tax system, a national sales tax or a value-added tax and if we did there would be no question of it falling within that interpretation. They would object, however, to our applying our direct taxes, our corporation taxes and so forth as an adjustment at the border.

Senator WILLIAMS. For the benefit of the record, would you outline this so-called DISC proposal and just how it would work on this tax deferment.

Secretary STANS. Yes; in the very simplest of terms, if an American company were to form a separate domestic corporation to deal exclusively in exporting, that subsidiary exporting corporation could defer the payment of its income taxes until the profits that it realized on its exports were withdrawn from the exporting company into the parent company. It permits the deferment of income taxes on export profits so long as they are used in export trade.

Senator WILLIAMS. Ultimately, when they are distributed they would be taxed.

Secretary STANS. They would be taxed. That is the same situation that now applies with respect to the subsidiary of a company organized in a foreign courtry. It doesn't pay those taxes until the profits are brought back to the United States. What we want to do is allow that subsidiary to be in the United States instead of requiring it to be overseas, and then give it the same tax benefit.

Senator WILLIAMS. No further questions.

The CHAIRMAN. Senator Talmadge.

Senator TALMADGE. Mr. Secretary, I congratulate you on your candid, forthright statement.

On September 23 of this year Chairman Mills of the Ways and Means Committee inserted in the record a document and I quote a portion thereof:

As Stanley Nehmer, Deputy Assistant Secretary of Commerce, stated recently, we are the only major market in the world without quantitative limitation on imports of wool and manmade fiber textiles and apparel. Many importing countries have unilaterally imposed restrictions. Other countries have reached bilateral agreements limiting trade. Japan, for example, has agreements with nine importing nations restricting trade in wool and manmade fiber textiles.

Mr. Secretary, can you describe generally and supply for the record the specifics of the European countries' restrictions of man-made-fiber and woolen textile imports especially from Japan?

Secretary STANS. There are a number of types of restrictions that are imposed by other countries. One was quota limits, another, another, licensing agreements which are employed to reduce the quantity of goods that are allowed into these countries, and we have a very voluminous file, Senator, which we would be glad to submit for the record which lists the foreign restrictions on wool and man-made-fiber textiles imposed by other countries insofar as we know them.

Senator TALMADGE. Please supply that for the record.[2] I want to quote further from the Mills document:

Data now available shows that in 1968, while the United States took 20 percent of Japanese textile mills' product exports the European Economic Community imported only three percent. We imported 51 percent but Japan's apparel exports and the EEC took only five percent. We imported 38 percent of Hong Kong's apparel exports in 1968, first half only, while the EEC took only 14 percent. In the mill products sector we imported 32 percent of Hong Kong's exports as against two percent for the EEC. We think the reason for this is that the European community is deliberately keeping those goods out of the market. In short, our market has been open while others have been closed.

Does that statement sound familiar to you, Mr. Secretary?

Secretary STANS. That sounds familiar, and I think it is entirely correct.

Senator TALMADGE. You concur?

Secretary STANS. Yes.

Senator TALMADGE. Thank you, sir.

(Material requested by Senator Talmadge of Secretary Stans follows. Hearing continues on page 223.)

FOREIGN RESTRICTIONS ON FAR EAST EXPORTS OF WOOL/MAN-MADE FIBER TEXTILES—MAY 8, 1970

JAPAN

A. *Austro-Japanese Trade Agreement* of November 1966 established a list of *non-liberalized* items which are subject to import licensing and global quotas. Certain wool yarn, fabric, knitwear and apparel products are on the *non-liberalized* list: however, specific ceilings are not in force.

B. *Benelux-Japanese Bilateral Agreement:* The three Benelux countries share a common bilateral agreement with Japan which expired April 30, 1969. Pursuant to this agreement, all imports from Japan are subject to licensing, and a *market disruption clause* provides for immediate consultations should any industry (including the textile industry) be actually or potentially injured.

The bilateral agreement also contains provision for ceilings on Benelux imports of certain wool narrow fabrics and apparel.

[2] The information Senator Talmadge requested appears following interrogation of Secretary Stans; more detailed information appears in appendix B, page 413.

C. *Denmark* requires import licenses for *all* exports from non-Free List countries (including Communist bloc countries, Japan, Hong Kong, Korea, Taiwan). Licenses are used as a means of regulating imports from these countries; however, specific ceilings are not in force.

D. *German-Japanese Trade Agreement of December 1967* provides for ceilings on Japanese exports of certain wool yarns, fabrics and apparel, and certain man-made fiber fabrics and apparel for 1967/68. FRG unwilling to announce 1969/70 ceilings.

Federal Republic of Germany requires licenses for the importation of certain wool yarns, fabrics, and apparel products from Country List B countries which include Japan.

E. *Franco-Japanese Bilateral Trade Agreement* scheduled to expire March 1969 contains a provisions for ceilings on French imports of certain wool yarns, fabrics and apparel. In return for certain Japanese concessions, France has agreed, by 1969, to reduce by half the number of categories of imports from Japan which are subject to quota restrictions.

France requires licenses for the importation of certain wool yarns, fabrics, carpets and apparel products from any GATT countries (except OECD countries with the exception of Japan). Licenses are used as a means of regulating imports; however, specific ceilings are not in force.

F. *Italian-Japanese Trade Protocol of October 15, 1955.* The 1969 agreement for the period October 1, 1969—September 30, 1970, provides for ceilings on Italian imports of certain wool and man-made fiber yarns, fabrics, made-up goods and apparel from Japan.

G. *Norwegian-Japanese Trade Agreement* for the period October 1, 1969–September 30, 1970. The agreement includes ceilings on Japanese exports of certain wool fabrics, knit goods and apparel to Norway.

H. *Swedish-Japanese bilateral trade agreement* for the period April 1, 1970 to March 31, 1971, provides for a ceiling of $2.5 million on Japanese exports of certain yarn, fabric and apparel products to Sweden.

I. *Anglo-Japanese Commercial Treaty* of November 1962, reviewed annually, includes a provision for ceilings on Japan's exports of certain wool fabrics and apparel.

J. *Switzerland* requires price certificates for the importation of all textile products from Hong Kong, Japan, and Eastern Europe, fabric stage and beyond. Goods are not permitted entry if landed prices are below domestic prices by the following margins:

Apparel and other finished products	20%
Wool fabric	12%

Import licenses required for all textile products, fabric stage and beyond, regardless of origin. These licenses are granted automatically unless the products originate in Japan, Hong Kong or Eastern Europe and fall below Swiss prices by the margin indicated above.

Importing country, Austria; country of origin, Japan

Restriction.—Austro-Japanese trade agreement of Nov. 4, 1966, extended through Dec. 31, 1969, established a list of nonliberalized items which are subject to import licensing and global quotas. The wool textile items on the nonliberalized list are given below; specific ceilings are not in force:

Item	*Tariff No.*
Worsted yarn of sheep wool, not made up for retail sale	53. 07
Yarn of sheep wool, of other fine or coarse animal hair or horse hair, made up for retail sale	53. 10
Woven fabrics of sheep wool or fine animal hair	53. 11
Woven ribbons and ribbons without weft made from yarns or fibers laid parallel and glued together other than goods falling under tariff number 58.06 (woven labels, badges, and the like); all made from textile materials other than cotton	ex 58. 05
Woven fabrics coated with an adhesive or starch-containing agent for book covers, cases, and sheaths, and similar bookbinding and boxmaking purposes; all from textile materials other than cotton	ex 59. 07
Woven fabrics coated or impregnated with preparations of cellulose derivates or other plastics	59. 08
Other fabrics, impregnated or coated; painted fabrics for theatrical decorations; studio backdrop and the like; with the exception of fine woven fabrics coated with a preparation based on natural resins or camphor; all made from textile materials other than cotton	ex 59. 12

Item	Tariff No.
Elastic woven fabrics of other textile materials than cotton, combined with rubber threads, with a width of less than 30 centimeters	ex 59. 13
Knitted fabrics by the yard, not rubber-elastic, not rubberized, made from other textile materials than cotton	ex 60. 01
Knitted gloves and mittens, not rubber-elastic, not rubberized; made from other textile materials than cotton	ex 80. 02
Knitted stockings, understockings, socks, and the like, not rubber-rubber-elastic, not rubberized, made from other textile materials than cotton	ex 60. 03
Knitted (tricot) under garments, not rubber-elastic, not rubberized, made from textile materials other than cotton	ex 60. 04
Knitted (tricot, jersey) outer garments and garment accessories, not rubber-elastic, not rubberized, made from textile materials other than cotton	ex 60. 05
Rubber-elastic or rubberized knitted fabrics by the yard, and goods made thereof (including elastic kneecaps and elastic stockings) made from textile materials other than cotton	ex 60. 06
Garments and garment accessories made from textile materials other than cotton, excluding handkerchiefs (tariff number 61.05); mufflers and mantillas (ex 61.06); tuckers, fallals, bodice fronts, jabots, cuffs, flounces, yokes and similar accessories and trimmings for women's and girls' garments (ex 61.08); gloves, mittens, stockings and socks, not knitted (61.10)	ex 61
Other made-up textile products made from textile materials other than cotton, excluding traveling rugs and blankets other than made from wool and fine animal hair (ex 62.01), and other made-up articles including dress patterns (62.05)	ex 62

Importing country, Benelux; country of origin, Japan

Restriction.—Benelux-Japanese bilateral agreement in effect until April 30, 1969, contains provision for ceilings on Benelux imports of certain wool products from Japan into the Benelux countries. 1967 quotas given below remain in force:

Item	Quota in metric tons
Ribbon, lace, braid, and trimming, not silk	30
Outer garments and other articles, knitted or crocheted, of wool or wool mixtures	85

In addition, all other imports from Japan are subject to licensing. A market disruption clause provides for immediate consultations should any industry (including the textile industry) be actually or potentially injured. If not agreement can be reached within a reasonable time, the Benelux countries may impose quantitative restrictions as deemed appropriate. This clause, however, has never been invoked, and licensing requirements have evidently not been used restrictively.

Importing country, Federal Republic of Germany; country of origin, Japan

Restriction.—German-Japanese trade agreement of December 1967 provides for the following ceilings on Japanese exports of wool textile products. The quotas below are for the 2-year period 1967–68, with half the quota for each year. FRG unwilling to release 1969–70 ceilings:

Item	Quota
Worsted yarn, not for retail sale (kilograms)	470, 000
Yarn of wool or of fine animal hair, for retail sale (kilograms)	110, 000
Wool fabric	$2, 475, 000
Outergarments, woven, of wool or manmade fibers	$3, 575, 000

Importing country, France; country of origin, Japan

Restriction.—Franco-Japanese trade agreement of May 14, 1963, reviewed annually. Protocol signed February 1969 provides the following ceilings on French imports of wool textile products for the period April 1, 1968, to March 31, 1969:

Item	Quota value in U.S. dollars
Combed wool yarn for retail sale	305,000
Wool fabric (quantity in metric tons, 84)	[1] 304,000
Other textile articles, except of cotton:	
Woven clothing	424,000
Knitted goods	118,000
Other articles	63,000

[1] Indicative level.

In late 1967 both countries agreed to a reduction in discriminatory quotas. In return for certain Japanese concessions, France agreed, by 1969, to reduce by half the number of categories of imports from Japan which are subject to quota restrictions; some wool textile items may be included, but it is not yet known which ones.

Importing country, Italy; country of origin, Japan

Restriction.—Italian-Japanese trade protocol of October 18, 1955, renewed annually. 1969 agreement for the period October 1, 1969-September 30, 1970, provides for the following ceilings on Italian imports of wool textile products from Japan.

Tariff No. and item	Quota in U.S. dollars
53.07 Worsted yarn	160,000
53.11 Woven fabrics of sheep's or lambs' wool or of fine animal hair	[1] 360,000
ex 58.04 Woven pile and chenille fabrics, except of cotton, excluding items under No. 55.08 and No. 58.05	70,000
ex 58.05 Narrow woven fabrics, except of cotton, excluding items under No. 58.06	70,000
Apparel and clothing accessories (except of cotton):	
ex 60.05 Knitted and crocheted goods: Outergarments, not elastic or rubberized	70,000
61.02 Other than knitted or crocheted: Women's, girls', and infants' outergarments	70,000
Other made-up articles, except of cotton:	
ex 62.02 Bed linen, table linen, kitchen linen, curtains	70,000

[1] Italy will consider the issuance of import licenses beyond the established amounts whenever the Italian market situation may permit.

Exporting country, Japan; country of destination, United Kingdom

Restriction.—The Anglo-Japanese commercial treaty of November 1962, reviewed annually includes a provision for ceilings on Japan's exports of the following wool products for 1968 and 1969:

Item	Quota 1968	Quota 1969
Woven wool fabrics (square yards)	1,000,000	1,200,000
Knitted fabrics of manmade fibers and apparel (excluding gloves) of knitted, netted, or crocheted material of cotton, wool or manmade fibers (including stockings and socks)	$2,560,800	$2,944,800
Outergarments (excluding gloves) of woven manmade fiber fabric; outergarments and underwear of woven cotton; handkerchiefs, shawls, scarves and mufflers except those of silk or linen	[1] 6,596,400	
Knitted gloves, other than gloves knitted to shape	552,000	(2)
Lace and lace net and embroidery of all types	192,000	(2)
Narrow fabrics of all types and articles made therefrom	307,200	352,800

[1] If this sum, $942,000, is for cotton.
[2] Liberalized.

Importing country, Norway: Country of origin, Japan

Restriction.—Norwegian-Japanese trade agreement for the period October 1, 1969, to September 30, 1970. The agreement includes ceilings on Japanese exports of certain wool fabrics, knit goods and apparel to Norway.

Importing country, Sweden: country of origin, Japan

Restriction.—Swedish-Japanese bilateral trade agreement for the period April 1, 1970, to March 31, 1971, provides for a ceiling of $2.5 million on Japanese exports of various textiles including the following wool products:

Yarn of sheep's or lambs' wool, of horsehair or of other animal hair (fine or corase), put up for retail sale	53.10.
Woven fabrics of wool and other animal hair	53.11–.13.
Woven pile fabrics and chenille fabrics	58-04.
Narrow woven fabrics, and narrow fabrics (bolduc) consisting of warp without weft assembled by means of an adhesive	58-05.
Woven labels, badges and the like, not embroidered, in the piece, in strips or cut to shape or size	58-06.
Bonded fiber fabrics and articles of bonded fiber fabrics, whether or not impregnated or coated	59.03.
Elastic fabrics and trimmings (other than knitted or crocheted goods) consisting of textile materials combined with rubber threads	59.13.
Knitted or chrocheted fabric, not elastic nor rubberized	60.01–.06.
Men's, boys', women's, and girls' outergarments and undergarments, not knitted or crocheted	ex 61.01, 61.02.04.
Shawls, scarves, mufflers, mantillas, veils, and the like	ex 61.06.
Gloves, mittens, mitts, stockings, socks, and sockettes, not knitted or crocheted goods	61.10.
Traveling rugs and blankets	62.01.
Bed linen, table linen, toilet linen, and kitchen linen; curtains and other furnishing articles	62.02.
Other made-up textile articles (including dress patterns)	62.05.
Hats and other headgear (including hair nets), knitted or crocheted, or made up from lace, felt or other textile fabric in the piece (but not from strips), whether or not lined or trimmed	ex 65.05.

JAPAN

A. *Austro-Japanese Trade Agreement of November* 1966 established a list of *non-liberalized* items which are subject to import licensing and global quotas. Certain man-made fibers yarns, fabrics, knit goods and apparel are on the *non-liberalized* list; however, specific ceilings are not in force.

B. *Benelux-Japanese Bilateral Agreement:* The three Benelux countries share a common bilateral agreement with Japan which expired April 30, 1969. Pursuant to this agreement, all imports from Japan are subject to licensing and a *market disruption clause* provides for immediate consultations should any industry (including the textile industry) be actually or potentially injured.

The bilateral agreement also contains provision for ceilings on Benelux imports of certain man-made fiber yarns, fabric and apparel.

C. *Canadian-Japanese Agreement* includes provision for ceilings on Japanese exports of nylon fabric, and certain man-made fiber apparel products.

D. *Denmark* requires import licenses for *all* exports from non-Free List countries (including Communist bloc countries, Japan, Hong Kong, Korea, Taiwan). Licenses are used as a means of regulating imports from these countries; however specific ceilings are not in force.

E. *German-Japanese Trade Agreement* of December 1967 provides for ceilings on Japanese exports of certain wool yarns, fabrics and apparel, and certain man-made fiber fabrics and apparel for 1967/68. FRG unwilling to release 1969/70 ceilings.

West Germany requires licenses for the importation of all man-made fiber products from Country List B countries which includes Japan.

F. *Franco-Japanese Bilateral Trade Agreement* scheduled to expire March 1969 contains a provision for ceilings on French imports of certain man-made fiber yarns, fabrics and apparel. In return for certain Japanese concessions, France has agreed, by 1969, to reduce by half the number of categories of imports from Japan which are subject to quota restrictions.

France requires licenses for the importation of certain man-made fiber carpets and apparel products from any GATT countries (except OECD countries with the exception of Japan). Licenses are used as a means of regulating imports; however, specific ceilings are not in force.

G. *Italian-Japanese Trade Protocol of October 15, 1955:* The 1969 agreement for the period October 1, 1969–September 30, 1970, provides for ceilings on Italian imports of certain wool and man-made fiber yarns, fabrics, made-up goods and apparel from Japan.

H. *Norwegian-Japanese Trade Agreement* for the period October 1, 1969–September 30, 1970. The agreement includes ceilings on Japanese exports of certain man-made fiber yarns, fabrics, knit goods and apparel.

I. *Swedish-Japanese bilateral trade agreement* for the period April 1, 1970 to March 31, 1971, provides for a ceiling of $2.5 million on Japanese exports of certain yarn, fabric and apparel products to Sweden.

J. *Anglo-Japanese Commercial Treaty* of November 1962, reviewed annually, includes a provision for ceilings on Japan's exports of certain man-made fiber yarns, fabrics and apparel items.

K. *Switzerland* requires price certificates for the importation of all textile products from Hong Kong, Japan, and Eastern Europe, fabric stage and beyond. Goods are not permitted entry if landed prices are below domestic prices by the following margin:

Apparel and other finished products ---------------------- 20%

Switzerland requires licenses for all textile products, fabric stage and beyond, regardless of origin. These licenses are granted automatically unless the products originate in Japan, Hong Kong or Eastern Europe and fall below Swiss prices by the margin indicated above.

Importing country, Austria, country of origin, Japan

Restriction.—Austro-Japanese trade agreement of November 4, 1966, extended through December 31, 1969, established a list of nonliberalized items which are subject to import licensing and global quotas. The manmade fiber textile items on the nonliberalized list are given below; specific ceilings are not in force:

Item	*Tariff No.*
Yarn of continuous manmade fiber of natural polymers, not made up for retail sale.	51.01B.
Woven fabrics of continuous fiber of natural or synthetic polymers including woven fabrics of monofils, strips, or similar shapes of materials listed under tariff number 51.01 and 51.02.	51.04.
Discontinuous viscose textile fibers (rayon staple fiber), not carded, not combed.	ex 56.01B1.
Continuous filament tow of natural polymers for the production of discontinuous fiber (rayon staple fiber).	ex 56.02B.
Rayon staple fiber waste, not carded, not combed, including waste yarn and reclaimed fibers.	ex 56.03B.
Discontinuous viscose fiber (rayon staple fiber) and waste, carded, combed or otherwise prepared for spinning.	ex 56.04B.
Yarn of discontinuous fiber of natural or synthetic polymers or of waste thereof, not made up for retail sale.	56.05.
Woven fabrics of discontinuous fibers of natural or synthetic polymers.	56.07.
Woven ribbons and ribbons without weft made from yarns or fibers laid parallel and glued together other than goods falling under tariff number 58.06 (woven labels, badges and the like); all made from textile materials other than cotton.	ex 58.05.
Woven fabrics coated with an adhesive or starch-containing agent for book covers, cases and sheaths, and similar bookbinding and boxmaking purposes; all from textile materials other than cotton.	ex 59.07.
Woven fabrics coated or impregnated with preparations of cellulose derivatives or other plastics.	59.08.
Other fabrics, impregnated or coated, painted fabrics for theatrical decorations, studio backdrop and the like; with the exception of fine woven fabrics coated with a preparation based on natural resins or camphor; all made from textile materials other than cotton.	ex 59.12.
Elastic woven fabrics of other textile materials that cotton, combined with rubber threads, with a width of less than 30 centimeters.	ex 59.13.
Knitted fabrics by the yard, not rubber-elastic, not rubberized, made from other textile materials than cotton.	ex 60.1.

Item	Tariff No.
Knitted gloves and mittens, not rubber-elastic, not rubberized; made from other textile materials than cotton.	ex 60.02.
Knitted stockings, understockings, socks, and the like, not rubber-elastic, not rubberized, made from other textile materials than cotton.	ex 60.03.
Knitted (tricot) under garmets, not rubber-elastic, not rubberized, made from textile materials other than cotton.	ex 60.04.
Knitted (tricot, jersey) outer garments and garment accessories, not rubber-elastic, not rubberized, made from textile materials other than cotton.	ex 60.05.
Rubber-elastic or rubberized knitted fabrics by the yard, and goods made thereof (including elastic kneecaps and elastic stockings) made from textile materials other than cotton.	ex 60.06.
Garments and garment accessories made from textile materials other than cotton, excluding handkerchiefs (tariff number 61.05); mufflers and mantillas (ex 61.06); tuckers, fallals, bodice fronts, jabots, cuffs, flounces, yokes, and similar accessories and trimmings for women's and girls' garments (ex 61.08); gloves, mittens, stockings and socks, not knitted (61.10).	ex 61.
Other made-up textile products made from textile materials other than cotton, excluding traveling rugs and blankets other than made from wool and fine animal hair (ex 62.01), and other made-up articles including dress patterns (62.05).	ex 62.

Importing country, Canada; country of origin, Japan

Restriction.—Canadian-Japanese agreement includes provision for ceilings on Japanese exports of certain manmade fiber products, 1969 levels—Shipments under these quotas and subquotas may be increased by not more than 5 percent in 1969 with equivalent reductions in shipments under the corresponding quotas and subquotas for 1970:

Item	Quota in dozens
Blouses, polyster/cotton blends [1]	42, 863
Shirts, polyester/cotton blends	80, 997
Trousers and outershorts, synthetic	59, 410
Knitted wear, spun rayon and synthetic [2]	401, 082
	Quota
Elastic braid of all fibers (pounds)	605, 000
Fabrics of nylon (includes only fabric for use in the manufacture of apparel) (square yards)	3, 811, 500

[1] The Canadian-Japanese bilateral includes quotas for cotton products as well as manmade fiber. The subgroups for shirts and blouses may each be increased up to 10 percent by transfers of quotas, but the total must remain stable. Transfers to the manmade fiber subgroup for trousers and shorts may increase the amount by up to 20 percent. The Japanese Government will urge Japnaese producers and exporters to so plan their shipments that there will be no undue concentration on any item within the quota categories.

[2] Includes knitted wear of spun rayon and synthetic fiber as defined in the explanatory note and also knitted wear of synthetic fibers blended with wool, containing more than 50 percent by weight of synthetic fiber.

NOTE.—In the above table "synthetic" includes rayon filament and all other manmade fibers except spun rayon, except in the case of synthetic shirt and blouses, as noted.

The following is a table of criteria used by the Government of Japan to distinguish between the quota categories of made-up textiles which are a mixture of various fiber components. The basic principle for the criteria is chief value, converted into percentage of fiber content by weight, so that the percentages vary extensively:

Defined and fiber composition	Percentage of fiber content (by weight)
Cotton:	
Cotton and silk	88 percent and over cotton.
Cotton and wool	67 percent and over cotton.
Cotton and rayon filament	40 percent and over cotton.
Cotton and spun rayon	30 percent and over cotton.
Cotton and synthetic fiber	51 percent and over cotton.

Defined and fiber composition	*Percentage of fiber content (by weight)*
Spun rayon:	
Spun rayon and wool	91 percent and over spun rayon.
Spun rayon and silk	91 percent and over spun rayon.
Spun rayon and jute or flax	71 percent and over spun rayon.
Spun rayon and synthetic fiber	71 percent and over spun rayon.
Spun rayon and cotton	71 percent and over spun rayon.
Spun rayon and rayon filament	Regardless of percent fiber content.
Rayon filament:	
Rayon filament and cotton	61 percent and over rayon filament.
Rayon filament and synthetic fiber	51 percent and over rayon filament.
Synthetic fiber:	
Synthetic fiber and rayon filament	50 percent and over synthetic fiber.
Synthetic fiber and jute or flax	Do.
Synthetic fiber and cotton	Do.
Synthetic fiber and spun rayon	30 percent and over synthetic fiber.

Importing country, Benelux; country of origin, Japan

Restrictions.—Benelux-Japanese bilateral agreement in effect until April 30, 1969, contains provision for ceilings on Benelux imports of certain manmade fiber products from Japan. 1967 quotas given below remain in force:

Item	*Quota in metric tons*
Yarn of manmade fibers and rayon fibers put up for retail sale	65
Woven manmade fiber filament yarn fabrics, printed	50
Woven manmade fiber filament yarn fabrics, not printed excluding grey	300
Woven manmade fiber spun yarn fabrics, printed	70
Woven manmade fiber spun yarn fabrics, not printed excluding grey	179
Grey cloth of manmade fibers and of cotton	$1, 240, 000
Ribbon, lace, braid and trimming, not silk of all fibers	30
Women's, girls' and infants' outergarments, not silk or wool (excluding kimonos)	60
Men's and boys' shirts and pajamas of manmade fibers and cotton	35
Handkerchiefs of cotton and manmade fibers	16
Shawls, scarves, etc., of manmade fibers	70

NOTE.—In addition, all other imports from Japan are subject to licensing. A market disruption clause provides for immediate consultations should any industry (including the textile industry) be actually or potentially injured. If no agreement can be reached within a reasonable time, the Benelux countries may impose quantitative restrictions as deemed appropriate. This clause, however, has never been invoked, and licensing requirements have evidently not been used restrictively.

Importing country, Federal Republic of Germany; country of origin, Japan

Restriction.—German-Japanese trade agreement of December 1967 provides for the following ceilings on Japanese exports of manmade fiber textile products. The quotas below are for the 2-year period 1967–68, with half the quota for each year. FRG unwilling to release 1969–70 ceilings:

Item	*Quota*
Manmade fiber fabric	$1, 650, 000
Fabric of cellulosic fibers, dyed, 135–145 meters wide	1, 250, 000
Fabric of celluloic fibers, unprocessed and bleached	[1]
Outergarments, woven, of wool or manmade fibers	3, 575, 000
Fabric of cellulosic fibers except unprocessed and bleached	1, 650, 000

[1] 27,200,000 square meters.

Importing country, France; country of origin, Japan

Restriction.—Franco-Japanese trade agreement of May 14, 1963, reviewed annually. Protocol signed February 1969 provides the following ceilings on French imports of manmade fiber products for the period April 1, 1968, to March 31, 1969:

Item	Quota: Quantity in metric tons	Quota: Value in U.S. dollars[1]
Noncellulosic filament yarn (of which 33 tons of yarn is more than 400 turns per meter)	92	277,000
Cellulosic filament yarn	219	253,000
Noncellulosic woven filament fabric	91	458,000
Cellulosic woven filament fabric, printed	32	80,000
Cellulosic woven filament fabric, unprinted	48	160,000
Noncellulosic spun yarn fabrics	61	365,000
Cellulosic spun yarn fabrics, printed	137	250,000
Cellulosic spun yarn fabrics, unprinted	63	250,000
Other textile articles, except cotton:		
Woven clothing	---	424,000
Knitted goods	---	118,000
Other articles	---	63,000

[1] Dollar value only indicative level.

NOTE.—In late 1967 both countries agreed to a reduction in discriminatory quotas. In return for certain Japanese concessions, France agreed, by 1969, to reduce by half the number of categories of imports from Japan which are subject to quota restrictions; some manmade fiber textile items may be included but it is not yet known which ones.

Importing country, Italy; country of origin, Japan

Restriction.—Italian-Japanese trade protocol of October 18, 1955, renewed annually. 1969 agreement for the period October 1, 1969, to September 30, 1970, provides for the following ceilings on Italian imports of manmade fiber textile products from Japan:

Tariff No. and item	Quota in U.S. dollars
51.04 Woven fabrics of continuous manmade fiber	440,000
56.07 Woven fabrics of discontinuous manmade fiber or waste	[1] [2] 600,000
ex 58.04 Woven pile and chenille fabrics, except of cotton, excluding items under No. 55.08 and No. 58.05	70,000
ex 58.05 Narrow woven fabrics, except of cotton, excluding items under No. 58.06	70,000
Apparel and clothing accessories (except of cotton):	
ex 60.05 Knitted and crocheted goods: Outer garments, not elastic or rubberized	70,000
ex 61.02 Other than knitted or crocheted: Women's, girls', and infants' outergarments	70,000
ex 61.05 Handkerchiefs	70,000
Other made-up articles, except of cotton:	
ex 62.02 Bed linen, table linen, kitchen linen, curtains	70,000

[1] Italy will consider the issuance of import licenses beyond the established amounts, whenever the Italian market situation may permit.
[2] Temporary imports.

Importing country, Sweden; country of origin, Japan

Restriction.—Swedish-Japanese bilateral trade agreement for the period April 1, 1970, to March 31, 1971, provides for a ceiling of $2.5 million on Japanese exports of various textiles including the following manmade fiber products:

Item	Tariff No.
Woven fabric of continuous man-made fibers	51.04.
Yarn of manmade fibers (discontinuous or waste), put up for retail sale	56.06.
Woven fabrics of manmade fibers (discontinuous or waste)	ex 56.07.
Woven pile fabrics and chenille fabrics	58.04.
Narrow woven fabrics, and narrow fabrics (bolduc) consisting warp without weft assembled by means of an adhesive	58.05.
Woven labels, badges and the like, not embroidered, in the piece, in strips or cut to shape or size	58.06.
Bonded fiber fabrics and articles of bonded fiber fabrics, whether or not impregnated or coated	59.03.
Twine, cordage, ropes, and cables	59.04.

Nets and netting made of twine, cordage or rope, and made up fishing nets of yarn, twine, cordage or rope	ex 59.05.
Textile fabrics coated or impregnated with oil or preparations with a basis of drying oil	59.07–.09, 12.
Rubberized textile fabrics, other than rubberized knitted or crocheted goods	59.11.
Elastic fabrics and trimmings (other than knitted or crocheted goods) consisting of textile materials combined with rubber threads	59.13.
Textile hosepiping and similar tubing	59.15.
Transmission, conveyor or elevator belts or belting, of textile material	59.16.
Textile fabrics and textile articles, of a kind commonly used in machinery or plant	59.17.
Knitted or crocheted textile/apparel products	60.01–.06.
Men's, boys', women's and girls' outergarments and undergarments, not knitted or crocheted	ex 61.01, 61.02–.04.
Shawls, scarves, mufflers, mantillas, veils, and the like	ex 61.06.
Gloves, mittens, mitts, stockings, socks, and sockettes, not knitted or crocheted goods	61.10.
Travelling rugs and blankets	62.01.
Bed linen, table lenin, toilet linen and kitchen linen; curtains and other furnishing articles	62.02.
Sacks and bags, of a kind used for the packing of goods	62.03.
Other made up textile articles	62.05.
Hats and other headgear (including hair nets), knitted or crocheted, or made up from lace, felt or other textile fabric in the piece (but not from strips), whether or not lined or trimmed	ex 65.05.

Importing country, Norway; country of origin, Japan

Restriction.—Norwegian-Japanese trade agreement for the period October 1, 1969, to September 30, 1970. For items on list I, licenses are issued automatically up to specified levels, at which point the two countries consult "with a veiw to finding appropriate measures for the development of trade between the two countries." The agreement includes ceilings on Norwegian imports of certain manmade fiber yarns, fabrics, knit goods and apparel.

Exporting country, Japan; country of destination, United Kingdom

Restriction.—The Anglo-Japanese commercial treaty of November 1962, reviewed annually includes a provision for ceilings on Japan's exports of the following manmade fiber products for 1968 and 1969:

Item	Quota 1968	Quota 1969
Spun yarn of manmade fibers	$106, 428	[1] $215, 000
Woven manmade fiber fabrics, except re-export (square yards)	6, 000, 000	7, 000, 000
Knitted fabrics of manmade fibers and apparel (excluding gloves) of knitted, netted, or crocheted material of cotton, wool or manmade fibers (including stockings and socks)	$2, 560, 800	$2, 944, 800
Outergarments (excluding gloves) of woven manmade fiber fabric: outergarments and underwear of woven cotton; handkerchiefs, shawls, scarves and mufflers except those of silk or linen	[2] $6, 596, 400	----------
Knitted gloves, other than gloves knitted to shape	$552, 000	(3)
Lace and lace net and embroidery of all types	$192, 000	(3)
Narrow fabrics of all types and articles made therefrom	$307, 200	$352, 800

[1] Pounds.
[2] Of this sum $942,000 is for cotton.
[3] Liberalized.

REPUBLIC OF KOREA

A. The Republic of Korea agreed November 26, 1969 to apply ceilings on Korean exports of certain wool products to Canada.

B. *Federal Republic of Germany* requires licenses for the importation of certain wool yarns, fabrics and apparel from Country List B countries which include Korea.

C. *France* requires licenses for the importation of certain wool yarns, fabrics, carpets, apparel from any GATT countries (except OECD countries with the exception of Japan). Specific ceilings are not in force.

D. *Denmark* requires import licenses for all exports from non-Free List countries (including Communist bloc countries, Japan, Hong Kong, Korea, Taiwan). Licenses are used as a means of regulating imports from these countries; however, specific ceilings are not in force.

E. *Norway* requires licenses for the importation of all textile and apparel products from the Republic of Korea. Specific ceilings are not in force.

F. *Swedish-Korean trade agreement* renewed March 1970 for one year includes ceilings on certain wool apparel items.

Importing country, Canada; Country of origin, Republic of Korea

Restriction.—The Korean Government agreed to apply the following ceilings on Korean exports of certain wool products in 1969:

Items	*Quota*
Broadwoven worsted fabric (square yards)	166, 625
Narrow fabric of all fibers (pounds)	50, 794
Gloves, of all fibers (including nontextiles) (dozens)	22, 145

NOTE.—For the purposes of the Canadian-Korean Agreement the following definitions of wool products will apply to products of mixed and blended fibers.

Defined and fiber composition	*Percentage of fiber content (by weight)*
Wool:	
Wool and silk	Over 65 percent wool.
Wool and cotton	33 percent and over wool.
Wool and manmade fiber	40 percent and over wool.

Importing country, Sweden; Country of origin, Republic of Korea

Restriction.—Swedish-Korean trade agreement in effect March 1, 1969, to February 28, 1970, provided the following ceilings on Korean exports of apparel:

Item	*Quota in U.S. dollars*
Jackets	80, 000
Shirts	210, 000

NOTE.—As a result of negotiations concluded March 6, 1970, Sweden agreed to raise the quotas for the items above by about 10 percent for the next year.

REPUBLIC OF KOREA

A. The Republic of Korea on November 26, 1969, agreed to apply ceilings on Korean exports of man-made fiber fabrics and apparel products to Canada for CY 1969.

B. *Federal Republic of Germany* requires licenses for the importation of all-man-made fiber products from Country List B countries which include Korea.

C. *France* requires licenses for the importation of certain man-made fiber carpets and apparel products from any GATT countries (except OECD countries with the except of Japan). Specific ceilings are not in force.

D. *Denmark* requires import licenses for all exports from non-Free List countries (including Communist bloc countries, Japan, Hong Kong, Korea, Taiwan). Licenses are used as a means of regulating imports from these countries; however, specific ceilings are not in force.

E. *Norway* requires licenses for the importation of all textile/apparel products from Korea. Licenses are used as a means of regulating imports; however, specific ceilings are not in force.

F. *Swedish-Korean trade agreement* renewed March 1970 for one year includes ceilings on certain man-made fiber apparel items.

Importing country, Canada; Country of origin, Republic of Korea

Restriction.—The Korean Government agreed to apply the following ceilings on Korean exports of manmade fiber fabric and apparel in 1969:

Item	Quota
Broadwoven fabrics wholly or substantially of nylon (square yards)	247, 500
Garments, cotton and/or manmade fiber (dozen):	
Woven shirts	60, 419
Blouses	40, 670
Sleepwear	41, 839
Trousers, slacks and shorts	76, 385
Knitted manmade fiber shirts	20, 806

Also included is a provision for ceilings on exports of worsted fabrics, narrow fabrics and gloves:

Item	Quota
Narrow fabrics of all fibers (not more than half to be elastic) (pounds)	50, 794
Gloves, of all fibers (including nontextiles) (dozen)	22, 145

NOTE.—For the purposes of the Canadian-Korean Agreement the following definitions of manmade fiber products will apply to products of mixed and blended fibers.

Defined and fiber composition	Percentage of fiber content (by weight)
Cotton:	
Cotton and silk	Over 88 percent cotton.
Cotton and wool	Over 67 percent cotton.
Cotton and manmade fiber	Over 55 percent cotton.
Manmade fiber:	
Manmade fiber and cotton	45 percent and over manmade fiber.
Manmade fiber and silk	75 percent and over manmade fiber.
Manmade fiber and wool	Over 60 percent manmade fiber.

The following schedule of deductions for overshipments will be applied in determining the relevant effective voluntary quotas for 1969, 1970 and 1971:

Item	Schedule of deductions 1969	1970	1971
Garments of cotton and/or manmade fibers:			
Woven shirts (dozen)	20, 000	35, 000	35, 000
Blouses (dozen)	10, 911	10, 911	10, 911
Trousers, slacks and shorts (dozen)	8, 963	8, 963	8, 964
Broadwoven fabrics substantially of nylon (square yards)	34, 666	------	------

In those cases where overshipments have occurred the relevant effective voluntary quotas for 1969 have been calculated as follows:

Item	Basic level	Less deduction for overshipment	Effective level
Garments of cotton and/or manmade fiber:			
Woven shirts (dozen)	60, 419	20, 000	40, 419
Blouses (dozen)	40, 670	10, 911	29, 759
Trousers, slacks, and shorts (dozen)	76, 385	8, 963	67, 422
Broadwoven fabrics substantially of nylon (square yard)	247, 500	34, 666	212, 334

Importing country, Sweden; country of origin, Republic of Korea

Restrictions.—Swedish-Korean trade agreement in effect March 1, 1969 to February 29, 1970, provided the following ceilings on Korean exports of apparel:

Item	Quota in U.S. dollars
Ankle socks and men's stockings other than wool (dozen pairs)	213, 000
Jackets	80, 000
Shirts	210, 000

NOTE.—As a result of negotiations concluded Mar. 6, 1970, Sweden agreed to raise the quotas for the items above by about 10 percent for the next year.

REPUBLIC OF CHINA

A. *Federal Republic of Germany* requires licenses for the importation of certain wool yarns, fabrics and apparel from Country List B countries which include Taiwan.

B. *Denmark* requires import licenses for all exports from Non-Free List countries (including Communist bloc countries, Japan, Hong Kong, Korea, Taiwan). Licenses are used as a means of regulating imports from these countries; however, specific ceilings are not in force.

C. *Sweden* reintroduced a licensing requirement July 25, 1968, on imports of certain wool yarns, fabrics, carpets and apparel from Taiwan. These regulations were adopted partly to control Hong Kong products shipped from the Republic of China; however, specific ceilings are not in force.

Importing country, Sweden; country of origin, Republic of China

Restriction.—Effective July 25, 1968, Sweden reintroduced a licensing requirement on the following wool products. Specific ceilings are not in force.

Item	*BTN Chapter No.*
Wool yarn and fabric	58
Carpets, carpeting, and rugs, "Kelems," etc	58
Woven pile fabrics and chenille fabrics, narrow woven fabrics and other narrow fabrics, woven labels, badges, etc., net fabrics	58
Articles of wadding	59
Felt and articles of felt	59
Bonded fiber fabrics and articles thereof	59
Textile fabrics coated with gum or amylaceous substances	59
Textile fabrics impregnated or coated with preparations of cellulose derivatives or of other artificial plastic materials	59
Textile fabrics coated with gum or amylaceous substances	59
Textile fabrics impregnated or coated with preparations of cellulose derivatives or of other artificial plastic materials	59
Textile fabrics coated or impregnated with oil, rubberized fabrics except rubberized knitted goods, and textile fabrics otherwise impregnated or coated	59
Knitted goods and knitwear	60
Outergarments and underwear, including foundation garments, stockings, gloves, mitten, etc	61
Miscellaneous manufactured textile products	62

NOTE.—Above regulations adopted partly to control Hong Kong products shipped from the Repu blic o China.

REPUBLIC OF CHINA

A. *Canadian-Taiwan Bilateral Textile Agreement* provides for ceilings on Taiwan's exports of polyester fiber apparel products for two twelve-month periods beginning October 10, 1969.

B. *Sweden* reintroduced a licensing requirement July 25, 1968, on imports of certain man-made fiber yarns, fabrics, carpets, and apparel from Taiwan. These regulations were adopted partly to control Hong Kong products shipped from the Republic of China; however, specific ceilings are not in force.

C. *Denmark* requires import licenses for *all* exports from non-Free List countries (including Communist bloc countries, Japan, Hong Kong, Korea, Taiwan). Licenses are used as a means of regulating imports from these countries; however, specific ceilings are not in force.

D. *Federal Republic of Germany* requires licenses for the importation of all man-made fiber products from Country List B countries which include Taiwan.

Importing country, Canada; country of origin, Republic of China

[Quota in dozens]

Item	*Year beginning Oct. 10, 1969*	*Oct. 10, 1970*
Category A:		
Woven polyester/cotton shirts and/or polyester/polynosic shirts:		
Basic level	60, 181	60, 181
Deductions related to previous shipments	14, 145	13, 215
Effective level	46, 036	46, 966
Category B:		
Woven polyester/cotton trousers, slacks, and outer shorts:		
Basic level	21, 078	21, 078
Deductions related to previous shipments	8, 082	7, 692
Effective level	12, 996	13, 386

Note.—These restraint levels will apply to (1) those shirts, trousers, slacks, and outer shorts that are made of polyester and cotton fiber belnds in which the percentage of polyester fiber by weight is 50 percent or more, and (2) shirts of polyester and polynosic fiber blends.

November 9, 1969, the Chinese agreed to restrain exports to Canada of *inter alia* cotton or rayon trousers as specified below:

Item	*Year beginning* — *July 1, 1969*	*July 1, 1970*
Cotton or rayon trousers (dozen)	71, 050	72, 116

Importing country, Sweden; country of origin, Republic of China

Restriction.—Effective July 25, 1968, Sweden reintroduced a licensing requirement on the following manmade fiber products. Specific ceilings are not in force:

Item	*BTN Chapter No.*
Manmade fiber yarn and fabric	51, 56
Discontinuous manmade fibers and waste	56
Carpets, carpeting rugs, "Kelems," etc	58
Woven pile fabrics and chenille fabrics, narrow woven fabrics and other narrow fabrics, woven labels, badges, etc., net fabrics	58
Articles of wadding	59
Felt and articles of felt	59
Bonded fiber fabrics and articles therefor	59
Twine, cordage, ropes, and cables; nets and netting thereof	59
Made-up fishing nets of yarn, twine, cordage, and rope	59
Textile fabrics coated with gum or amylaceous substances	59
Textile fabrics impregnated or coated with preparations of cellulose derivatives or of other artificial plastic materials	59
Textile fabrics coated or impregnated with oil, rubberized fabrics except rubberized knitted goods, and textile fabrics otherwise impregnated or coated	59
Elastic fabrics consisting of textile materials combined with rubber threads	59
Textile hosepiping and similar tubing	59
Textile transmission, conveyor or elevator belts or belting	59
Textile fabrics and articles of a kind commonly used in machinery or for related technical purposes	59
Knitted goods and knitwear	60
Outergarments and underwear, including foundation garments, stockings, gloves, mittens, etc	61
Miscellaneous manufactured textile products	62

NOTE.—Above regulations adopted partly to control Hong Kong products shipped from the Republic of China.

HONG KONG

A. *France* requires licenses for the importation of certain wool fabric, carpets and apparel from Hong Kong.

B. *Swedish-Hong Kong Memorandum of Understanding* of July 4, 1968, renewed June 1969, provides ceilings on Hong Kong exports of wool apparel products to Sweden for one-year beginning July 1, 1969.

C. *Denmark* requires import licenses for *all* exports from non-Free List countries (including Communist bloc countries, Japan, Hong Kong, Korea, Taiwan). Licenses are used as a means of regulating imports from these countries; however, specific ceilings are not in force.

D. *Switzerland* requires price certificates for the importation of all textile products from Hong Kong, Japan, and Eastern Europe, fabric stage and beyond. Goods are not permitted entry if landed prices are below domestic prices by the following margins.

Apparel and other finished products	20%
Wool fabric	12%

Import licenses are required for all textile products, fabric stage and beyond, regardless of origin. These licenses are granted automatically unless the products originate in Japan, Hong Kong or Eastern Europe and fall below Swiss prices by the margin indicated above.

E. *Federal Republic of Germany* requires a certificate of origin for all wool products when imported from Hong Kong or Macao.

F. *Norwegian-Hong Kong trade agreement* renewed September 1969 includes ceilings on Hong Kong exports of various wool apparel products to Norway for 12 months beginning October 1, 1969.

Importing country, France; country of origin, Hong Kong

Restriction.—France requires licenses for the importation of various wool products listed below. Licenses are not granted freely:

Item	*Tariff No*
Carpets, rugs, mats, matting of wool or of coarse animal hair containing more than 15 percent by weight of discontinuous cellulosic fibers	ex 58.02
Gloves, mittens, and muffs, knitted or crocheted, not elastic nor rubberized	60.02
Undergarments, knitted or crocheted, not elastic nor rubberized	60.04
Outergarments and other articles, knitted or crocheted, not elastic nor rubberized	ex 60.05
Men's and boys' outergarments	ex 61.01
Women's, girls' and infants' outergarments	ex 61.02
Men's and boys' undergarments including collars, shirtfronts and cuffs	61.03
Women's, girls', and infants' undergarments	61.04
Shawls, scarves, mufflers, veils, etc	61.05

Importing country, Sweden; country of origin, Hong Kong

Restriction.—Swedish-Hong Kong memorandum of understanding of July 4, 1968, renewed June 1969 provides the following ceilings on Hong Kong exports of wool apparel products to Sweden for a 12-month period commencing July 1, 1969:

Item	*Quota in pieces*
Women's and Girls' Jackets, jumpers, sweaters, cardigans and pullovers, knitted or crocheted, wholly or mainly of sheep's wool (including lambs' wool) or of man-made fiber	1,675,000

NOTE.—Any items listed above which are substantially embroidered or beaded will not be included within the scope of the restraint, provided that exporters submit samples to the Hong Kong Government Department of Commerce and Industry when applying for export licenses outside quota.

Export authorization system: During the period July 6, 1968, to June 30, 1969, export licenses for the products listed below were to be issued only against export authorizations.

Item.—Jackets, jumpers, sweaters, cardigans, and pullovers, knitted or crocheted, wholly or mainly of sheep's wool (including lambs' wool), men's and boys' wear.

Importing country, Norway; country of origin, Hong Kong

Restriction.—Norwegian-Hong Kong trade agreement renewed September 1969 provides for ceilings on Hong Kong exports of the following wool apparel items for the year beginning October 1, 1969:

Tariff No. and item	*Quota (dozen)*
ex 841.462, 465 Men's boys', women's and girls' jackets, jumpers, sweaters, cardigans and pullovers, knitted or crocheted, wholly or mainly of sheep's wool including lambs' wool	90,000

HONG KONG

A. *Canadian-Hong Kong Memorandum of Understanding* of September 9, 1969, provides for ceilings on Hong Kong exports of polyester, polyester/cotton, and polyester/polynosic shirts, blouses and trousers to Canada for one year beginning October 1, 1969.

B. *France* requires licenses for the importation of certain man-made fiber fabric, carpets and apparel from Hong Kong.

C. *Swedish-Hong Kong Memorandum of Understanding* of July 4, 1968, renewed June 1969. provides ceilings on Hong Kong exports of man-made fiber apparel products to Sweden for one year beginning July 1, 1969.

D. *Denmark* requires import licenses for *all* exports from non-Free List countries (including Communist bloc countries, Japan, Hong Kong, Korea, Taiwan). Licenses are used as a means of regulating imports from these countries; however, specific ceilings are not in force.

E. *Switzerland* requires price certificates for the importation of all textile products from Hong Kong, Japan, and Eastern Europe, fabric stage and beyond. Goods are not permitted entry if landed prices are below domestic prices by the following margin.

Apparel and other finished products	20%

Import licenses are required for all textile products, fabric stage and beyond, regardless of origin. These licenses are granted automatically unless the products originate in Japan, Hong Kong or Eastern Europe and fall below Swiss prices by the margin indicated above.

F. *Federal Republic of Germany* requires a certificate of origin for all man-made fibers and yarn when imported from Hong Kong or Macao.

G. *Norwegian-Hong Kong trade agreement* renewed September 1969 provides for a system of export authorization for 12 months beginning October 1, 1969, whereby the Norwegian Government will receive advance information on the development of Hong Kong exports of certain man-made fiber apparel products.

Importing country, Canada; country of origin, Hong Kong

Restriction.—Canadian-Hong Kong memorandum of understanding of September 9, 1969, provides the following ceilings on Hong Kong exports of polyester, polyester/cotton, and polyester/polynosic shirts, blouses, and trousers to Canada for 1 year beginning October 1, 1969:

Item	*Quota in dozens*
Shirts made from woven fabrics of 100 percent polyester, of blended polyester/cotton of major weight polyester, and of blended polyester/polynosic fibers	100, 000
Blouses made from woven fabrics of 100 percent polyester, and of blended polyester/cotton of major weight polyester fibers	41, 600
Trousers made from woven fabrics of 100 percent polyester, and of blended polyester/cotton of major weight polyester fibers	56, 375

NOTE.—During the period of restraint it is the intention of the Hong Kong Government to allow any of the category limits to be exceeded by not more than 10 percent, but the aggregate of the 3 category limits will not be exceeded.

Importing country, Norway; country of origin, Hong Kong

Restriction.—Norwegian-Hong Kong trade agreement provides for a system of export authorization for the year beginning October 1, 1969, whereby the Norwegian Government will receive advance information on Hong Kong exports of the following manmade fiber products. No export license for these items will be issued unless an export authorization has previously been obtained.

Item	*Tariff No.*
Women's and girls' blouses and jumpers, not knitted or crocheted, wholly or mainly of polyester, nylon (polyamide) or rayon, not embroidered	841. 739.
Men's and boys' sweaters, jackets, jumpers, cardigans, pullovers, knitted or crocheted, wholly or mainly of acrylic fiber	Ex 841. 863.
Women's and girls' undergarments, knitted or crocheted, not elastic or rubberized, wholly or mainly of synthetic fiber	841. 844.

Importing country, Sweden; country of origin, Hong Kong

Restriction.—Swedish-Hong Kong memorandum of understanding of July 4, 1968, renewed June 1969 provides the following ceilings on Hong Kong exports of manmade fiber products to Sweden for a 12-month period commencing July 1, 1969:

Item	*Quota in pieces*
Women's and Girls' jackets, jumpers, sweaters, cardigans, and pullovers, knitted or crocheted, wholly or mainly of manmade fiber or of wool	1, 675, 000
Men's and Boys' anoraks and similar jackets, not knitted or crocheted, wholly or mainly of manmade fiber	180, 000

NOTE.—Any of the items listed above which are substantially embroidered or beaded will not be included within the scope of the restraint provided that exporters submit samples to the Hong Kong Government Department of Commerce and Industry when applying for export licenses outside quota.

Export authorization system: During the period July 6, 1968 to June 30, 1969, export licenses for the products listed below were to be issued only against export authorizations.

Items

Women's and Girls' undergarments (excluding nightwear), knitted or crocheted, not elastic or rubberized, wholly or mainly of continuous man-made fibers.

Anoraks and similar jackets, not knitted or crocheted, wholly or mainly of continuous noncellulosic fiber.

Blouses, not knitted or crocheted, wholly or mainly of continuous or discontinuous noncellulosic fibers, not embroidered, (excluding blouses wholly or mainly of cellulosic fiber).

Dress shirts, not knitted or crocheted, wholly or mainly of discontinuous noncellulosic fiber (excluding dress shirts wholly or mainly of cellulosic fiber).

Importing country, France; country of origin, Hong Kong

Restriction.—France requires licenses for the importation of various manmade fiber products listed below. Licenses are not granted freely:

Item	*Tariff No.*
Woven fabrics of sheep's or lambs' wool or of fine animal hair o· of a blend containing more than 15 percent by weight of cellulosic fibers and discontinuous noncellulosic fibers	ex 53. 11
Carpets, rugs, mats, matting of wool or of coarse animal hair containing more than 15 percent by weight of discontinuous cellulosic fibers	ex 58. 02
Gloves, mittens, and muffs, knitted or crocheted, not elastic nor rubberized	60. 02
Undergarments, knitted or crocheted, not elastic nor rubberized	60. 04
Outergarments and other articles, knitted or crocheted, not elastic nor rubberized	ex 60. 05
Men's and boys' outergarments	ex 61. 01
Women's, girls', and infants' outergarments	ex 61. 02
Men's and boys' undergarments including collars, shirtfronts and cuffs	61. 03
Women's, girls', and infants' undergarments	61. 04
Shawls, scarves, mufflers, veils, etc	61. 06

Clerk's Note.—At this point, objection was raised in the Senate Chamber to the Committee on Finance sitting while the Senate was in session. (See p. 405 for excerpt from proceedings in the Senate, Oct. 12, 1970.) The testimony beginning at this point and proceeding through page 380 was taken during informal proceedings with the following members of the Committee on Finance present: Senators Long, Anderson, Talmadge, Fulbright, Ribicoff, Byrd, Jr., Williams, Bennett, Curtis, Miller, Jordan, Fannin, and Hansen.

The CHAIRMAN. I want to announce at this point there has been objection to the committee meeting, and under those circumstances I declare this to be an informal meeting of Senators and anyone who wants to participate and ask any questions can.

Senator TALMADGE. Mr. Chairman, I move we adjourn and immediately reconvene as an informal group of Senators to have the pleasure of hearing what the Secretary might like to discuss with the Senators.

The CHAIRMAN. All in favor say "Aye."

(A chorus of "Ayes.")

The CHAIRMAN. Opposed, "No."

(No response.)

The CHAIRMAN. The "Ayes" have it.

We now are convened as an informal group and request you to proceed to advise us, Mr. Secretary, of your views on this legislation.

Secretary STANS. I will reply informally, Mr. Chairman.

[Laughter]

The CHAIRMAN. Senator Bennett.

Senator BENNETT. Mr. Secretary, can you tell us what makes textiles a special case and why should they be given consideration that is not given to other industries. Is that industry economically more depressed than, say, steel, glass, electronics or footwear and can you supply for the record comparable data on import penetration, profitability and employment in these various industries for the 1960–69 period. Also at the risk of creating more smiles than I got last Friday, my State of Utah is probably the largest producer of minkskins and the penetration there is 46 percent, down, I admit from a little over 50 percent, and don't you think an industry that is being penetrated to that extent deserves a little consideration?

Secretary STANS. Well, let me answer in several parts, first as to the information you would like for the record, we will supply that gladly.

Senator BENNETT. Very well.

(The data referred to follows:)

TEXTILES AND APPAREL

(Sic 22) (Sic 23)

Year	Percent import penetration (quantity)			Percent profits after taxes to—				Employment (thousands)	
				Sales		Equity			
	Cotton	Wool	Manmade fiber	Textiles	Apparel	Textiles	Apparel	Textiles	Apparel
1960	6.0	16.0	(1)	2.5	1.4	5.8	7.7	924	1,233
1961	4.7	13.3	(1)	2.1	1.3	5.0	7.2	893	1,214
1962	7.2	18.1	(1)	2.4	1.6	6.2	9.1	902	1,264
1963	7.4	20.6	(1)	2.3	1.4	6.1	7.7	885	1,283
1964	6.9	18.4	1.9	3.1	2.1	8.5	11.7	892	1,302
1965	7.7	20.8	2.7	3.8	2.3	10.8	12.7	925	1,354
1966	10.3	21.5	3.6	3.6	2.4	10.1	13.3	963	1,402
1967	9.4	21.6	3.9	2.9	2.3	7.6	12.0	958	1,398
1968	10.7	25.4	4.6	3.1	2.4	8.8	13.0	994	1,406
1969	11.7	25.4	5.3	2.9	2.3	7.9	11.9	999	1,412
1970 (fiscal year)	11.8	27.0	6.4	2.4	2.0	6.4	10.4	986	1,401

[1] Not available.

FOOTWEAR (SIC 3141, 3142, AND 3021)

Year	Imports as percent of total U.S. consumption		Profits after taxes as percent of [1]—		Employment (in thousands)
	Quantity	Value	Sales	Net worth	
1960	9.5	(2)	1.6	6.3	264.6
1961	9.7	(2)	1.1	4.4	263.4
1962	13.0	(2)	1.7	6.9	267.7
1963	12.5	(2)	1.8	6.9	260.7
1964	13.3	3.6	2.6	10.5	260.1
1965	14.7	5.3	3.8	11.6	264.5
1966	15.2	5.7	3.0	12.9	270.2
1967	19.4	7.6	2.9	11.8	258.6
1968	24.5	10.0	3.3	13.0	261.4
1969	26.6	13.0	2.6	9.3	254.8

[1] Profits of major SIC group 31 which covers leather and leather products and of which 2/3 is nonrubber footwear. Profits of rubber footwear including canvas upper shoes are not available because such shoes are made by the major tire manufacturers (who do not report profits on their shoe operations) or by privately owned firms who do not report profits.

[2] Not available.

Source: U.S. Department of Commerce and U.S. Department of Labor.

ELECTRONICS (SIC 365-7)

Year	Imports as percent of total U.S. consumption (value)[1]	Profits after taxes as percent of—		Employment (in thousands)
		Sales	Net worth	
1960	1.2	3.2	10.5	722.7
1961	1.7	3.0	9.5	750.5
1962	2.0	3.3	10.7	821.5
1963	1.9	3.3	10.3	811.3
1964	2.3	3.9	12.1	792.2
1965	2.7	4.6	14.9	857.3
1966	3.7	4.7	16.7	1,018.0
1967	3.9	3.9	13.4	1,052.1
1968	5.4	4.0	13.1	1,057.4
1969	6.8	(2)	(2)	1,067.2

[1] Excludes SIC 3652 for which no foreign data are available.
[2] Not available.

Source: U.S. Department of Commerce and U.S Department of Labor.

STEEL

(Sic 331 ex. 3313)

Year	Imports as percent of Total U.S. consumption (quantity)	Profits after taxes as percent of[1]—		Employment (thousands)
		Sales	Net worth	
1960	4.7	5.7	7.7	571.6
1961	4.7	5.2	6.5	523.3
1962	5.6	4.0	5.3	520.5
1963	6.9	5.4	7.1	520.3
1964	7.3	6.1	8.7	553.6
1965	10.3	5.9	8.9	583.9
1966	12.2	4.9	6.9	555.1
1968	16.7	5.3	7.9	551.6
1969	[2] 13.7	4.3	6.5	544.0
1970	[3] 11.8	[4] 3.0	(5)	(5)

[1] Voluntary restraints—EEC, Japan.
[2] Includes nonsteelmaking activities.
[3] 3 months.
[4] 6 months.
[5] Not available.

Source: U.S. Department of Commerce; employment data from American Iron & Steel Institute.

FLAT GLASS (SIC 3211)

Year	Imports as percent of total U.S. consumption (value)[1]	Profits after taxes as percent of sales	Employment (in thousands)
1960	8.9	(2)	33.2
1961	10.0	(2)	29.9
1962	9.8	(2)	30.4
1963	7.6	(2)	30.5
1964	8.9	15.5	30.8
1965	7.0	16.1	32.3
1966	8.9	10.6	32.4
1967	10.7	10.9	29.9
1968	13.5	13.2	26.7
1969	(2)	(2)	26.2

[1] Includes the value of mirrors exported (SIC 32315).
[2] Not available.

Source: U.S. Department of Commerce and U.S. Department of Labor.

ALL MANUFACTURING INDUSTRIES

Year	Profits after taxes as percent of— Sales [1]	Net worth [1]
1960	4.4	9.2
1961	4.3	8.9
1962	4.5	9.8
1963	4.7	10.3
1964	5.2	11.6
1965	5.6	13.0
1966	5.6	13.4
1967	5.0	11.7
1968	5.1	12.1
1969	4.8	11.5

[1] Based on averages of quarterly data.

Source: Federal Trade Commission—Securities and Exchange Commission.

Secretary STANS. As to why textiles are a special case, I think there are several reasons, one of which is the size of the industry and its impact upon the American economy. This industry employed a year ago 2,400,000 people. In many communities it was the sole industry.

Senator BENNETT. I would be interested at this point in its size relative to the steel industry.

Secretary STANS. There are approximately 550,000 steelworkers.

The textile industry employs a considerable number of our disadvantaged people, and that proportion is growing as time goes on.

I think more importantly than anything else is the massive rate at which these imports of textiles are coming into the United States.

When I mentioned earlier in my testimony that there was a 46 percent increase in 1970 over 1969 of apparel and textiles made from man-made fibers, and I did not want to imply that that was only in 1970 that this situation prevailed. We have had similar increases in each of the last several years. It amounts to a flood of imports which the industry could not possibly adjust to, and the result is closing of plants and the loss, as I said, of 91,000 jobs already this year, and it will be more than that.

Our projections a year or two ago were that if this trend continued, and this tidal wave of imports continued we would lose a hundred thousand jobs a year in the textile industry so that it is of such imposing size that it creates what is really a very imposing problem for our whole economy. And this is one of the reasons why I think textiles should be considered to be a very special case.

Senator BENNETT. Do you have any record of the effect on employment in the steel industry and the electronics industry?

Secretary STANS. I don't have any figures before me. I can provide those for the record. I would say that unquestionably the electronics industry has been very hard hit. Almost all of the portable radios sold in the United States are now imported, over half of the black and white television sets are now imported. We do have, however, an industry structure somewhat different from textiles in which the larger companies in the United States have been able to bear that type of competition with a little less suffering. But there isn't any question but what the electronics industry has had a great deal of loss of capacity as a result of imports.

Senator BENNETT. For the record I would like to point out that we have a steel plant in Utah as well as mink ranchers. So I am naturally interested in those industries and as far as I know we do not make any textiles.

Secretary STANS. Well, as you know, Senator, there is a voluntary restriction on the part of the Japanese and EEC steel producers as to the amount of steel they will ship into the United States. It goes on until the end of next year, and the administration is now considering the question of extension of that agreement.

Senator BENNETT. But speaking from the point of view of the plant in Utah, it is my understanding that that voluntary agreement included an agreement to spread their distribution in the United States out over a preceding pattern. But obviously, they have been concentrating rather than spreading, and when I consider that voluntary agreement again I think it could be considered because of concentrating their exports in a particular area. They are making it very difficult for the plant in Utah to remain open because the penetration of the market of that plant is much greater than the average penetration. So there is more than one way to skin a cat or a mink.

[Laughter.]

Secretary STANS. That is entirely correct. The imports, particularly from Japan, have not observed the previous pattern both geographically and as regards to product mix, and in any future discussions with the Japanese I think those two matters might be explored.

Senator BENNETT. That is my share, Mr. Chairman. Thank you very much.

The CHAIRMAN. Senator Miller.

Senator MILLER. Mr. Secretary, you state "We have always accepted the idea that foreign producers and workers should share in the growth of the domestic textile market."

I would like to probe on that a little bit.

Suppose that there was an increase in domestic consumption of 400 million yards of man-made fiber for a particular year, what share of that for foreign procedures are you suggesting we can always accept?

Secretary STANS. I don't think there is any precise formula or percentage that I would think we ought to allocate.

I think the main thing is that we should not allow a situation to prevail in which when the market grows 400 million yards, the imports grow 800 million yards, something like that.

Senator MILLER. Do you think they should be permitted to grow 400 million yards and take over all of the domestic increase?

Secretary STANS. No, I don't. I think they should have a proportionate amount, their proportionate provision in the market.

Senator MILLER. That is really the thrust of the trade bill that they will be given a certain percentage of our domestic consumption and domestic increase but that they won't get it all or go beyond that.

Secretary STANS. That is the basic thrust, yes, and it is the kind of, if I may take a moment, it is the kind of point that we made in all of our discussions with the Japanese and the other Far Eastern countries very simply—"You are increasing your share of the U.S. market at a rate of 30, 40, 50 percent a year. All we are asking you to do is to be reasonable about this, and not send these goods in in such a flood that it is something that our American industry can't adjust to and that causes a lot of unemployment in this country."

Senator MILLER. Now suppose there was an item being imported to the United States in which there was little or no domestic production, but our domestic consumption increased. There wouldn't be a problem there would there?

Secretary STANS. I wouldn't think there would be a problem there.

Senator MILLER. Isn't it, in other words, only when we have a substantial industry in this country where we think there ought to be some share between our own domestic industry and the exporting country of our increased domestic consumption that we believe we have a problem, and the problem is particularly a tough one in the case of textiles, but that would not limit us to looking at the other areas such as Senator Bennett referred to so that if, for example, in steel we have a 100 million ton increase in domestic use of steel, it would seem that we would be concerned if all the 100 million ton increase was taken over by foreign exporters to this country. Would that accord with that same philosophy, we would be concerned when all the domestic consumption increase is taken over by other countries?

Secretary STANS. If it would not induce the other countries to disrupt our market, but in the case of the other countries including the EEC and Japan, they have been willing to regulate their shipping to the United States voluntarily so that they do not cause disruption here.

Senator MILLER. Well, by that disruption do you mean they did not take over all of the increased domestic consumption?

Secretary STANS. No, they did not. They limited themselves over 3 years to a fixed figure which was less than the previous level with a provision for an increase of 5 percent a year.

Senator MILLER. I noticed you modified your statement on page 8 which originally read that it should be understood that the main purpose is to improve unequal burdens which now encumber our exporters. You changed that to more nearly even tax treatment.

It seems to me that to give American companies a deferral of income tax as against what we understand to be a complete tax writeoff or rebate among our foreign competitors is not very much comparable. It means a savings on interest but I just wonder how effective this is going to be. I can understand how a savings on interest is better than nothing at all but we are really going to put our American companies in competition with our trading partners and when our trading partners enable a rebate of taxes, not just a deferral, it seems we are going to have to come up with something comparable. Senator Long indicated one approach to this. Another approach would be to simply reduce the corporate income tax rates attributable to exports. Why are we so reluctant to come up with something like that?

Secretary STANS. Well, Senator, you are entirely right, I put the words "more nearly" in there because I did not feel that the DISC was all that was necessary to obtain comparability in position as between the United States and other countries. There are a great many different ways in which we can approach the question of comparability. One would be for the Congress to adopt the value-added tax in replacement for part of the corporation tax.

Senator MILLER. Yes, I understand, excuse me for interrupting but you know as well as I do that is a long way down the road if it ever gets here.

Secretary STANS. Senator, that is why I urged so strongly that we adopt the DISC now as an interim measure until such time as the Administration, the Congress can get together on the question of whether we are going to change the tax system or whether we are going to try to impose some kind of a new procedure on the GATT in order to get equality.

Senator MILLER. Now, finally, you stated that an interagency task force established at the direction of the President concluded that import quotas on footwear were not the answer to the problem. It is very interesting that they decided that that was not the answer, but what is the answer they are recommending or what is the answer that you think should be considered?

Secretary STANS. The answer is a combination of things that would try to deal with the footwear import problem within the United States rather than by affecting the foreign countries. By that I mean the escape clause action as provided in the Trade Expansion Act, and the adjustment assistance provisions in that act; if they are opened up to make it easier for companies to become eligible as is proposed in the bill before you.

Senator MILLER. By adjustment assistance you are referring to an increase in tariffs.

Secretary STANS. No, I am referring to financial help to American companies that are hurt severely by imports, financial help to do a better job of designing their product, to get new machinery that is more modern, to consider diversification of the business, to add new products, to do any of those things that make them more viable in the face of competition.

Senator MILLER. What about adjustment assistance through increased tariffs?

Secretary STANS. The Tariff Commission by an escape clause action would have the right to recommend an increase in tariffs within certain limits, and the President would have the authority under those circumstances to impose the tariffs.

Senator MILLER. And that would be another possible solution to this one.

Secretary STANS. That is another possible solution. And those are things we can do internally without restricting the import of the goods through quotas.

Senator MILLER. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Fulbright.

Senator FULBRIGHT. Mr. Chairman, before I ask a question, I received a telegram from the Soybean Association requesting to be heard. Did the chairman receive that similar telegram? It is signed by Mr. Sheldon J. Hauck, executive director, requesting the Soybean Association be allowed to testify.

The CHAIRMAN. I haven't seen it, Senator, but if they want to come in here and testify I would suggest that you invite them to make themselves available to be here today if they can. I will try to accommodate them on any basis.

Senator FULBRIGHT. Is this the only day of hearing?

The CHAIRMAN. We scheduled two days of hearings.

We will have a witness from the Agriculture Department to testify on soybeans but we have scheduled two days of hearings and the Senator is well aware of our time limitat ons, so I will do what I can to see that they are heard. If they will endeavor to be here. I can't assure the Senator that we will have any further hearings on it but I will do what I can to cooperate.

Senator FULBRIGHT. And also Congressman Sam Gibbons would like an opportunity to testify. I have talked with him. He seems to be very well informed about this matter. But if we are going to vote on this bill I think they would add a great deal to the Committee's understanding of the bill.

Well, Mr. Secretary—

The CHAIRMAN. If the Congressman wants to come over here we will try to hear him this afternoon.

Senator FULBRIGHT. All right. I will let him know.

Mr. Secretary, I wasn't quite clear about your testimony with regard to the health of the textile industry. Are you maintaining that it is in a serious financial plight? That the owners are not making any profit and there is a serious decrease?

Secretary STANS. No, I am not saying that industrywide they are not making profit. Many of the individual companies are losing money. Many plants are being closed month by month, there are more and more plants closed, and more and more people are being laid off.

Senator FULBRIGHT. Mr. Secretary, isn't that true of industry generally? Aren't we in a recession generally and all kinds of plants are being closed, not only textiles, is that true?

Secretary STANS. Senator, I think it is quite clear that the administration position is that we are not calling what has happened a recession.

(Laughter)

Senator FULBRIGHT. Not until after November 3 anyway.

(Laughter)

But according to the statistics that I have, based upon Department of Commerce figures, and if these aren't correct I would like for you to correct them, is that sales, for example, in the textile industry have risen from $27.7 billion in 1961 to $44.5 in 1969. Profits have increased from $920 million in 1961 to $1.2 billion in 1969, and that the imports as a percent of domestic consumption are 4.2 percent measured in dollar volume. Are those figures correct?

Secretary STANS. I think they are partially incorrect and I think they are also, Senator, not appropriate in this situation.

Senator FULBRIGHT. Why not?

Secretary STANS. Well, comparing 1960 or 1961 with 1969 ignores the fact that this crisis in the industry, if we may call it that, has occurred within the last year or two. In the last year, in 1970, as I said, there has been a very severe blow to the industry because of the cumulative impact of the increased imports. They have been increasing at the rate of 40, 50 percent a year in manmade fibers, and—

Senator FULBRIGHT. When, just this year?

Secretary STANS. No, in 1968, 1969, 1970. These are the years in which the impact of these increases has been very significant in terms of yardage and in terms of value.

Imports of manmade fiber textiles with which we are most concerned here, have been on the upgrowth, or upgrade for a relatively short period of time. They were relatively insignificant in 1961.

Senator FULBRIGHT. These figures that I have been furnished say the synthetic textiles and textile products amount to only 3 percent of the dollar volume which is less even than textiles generally; is that correct or not?

Secretary STANS. No, that is not correct.

Senator FULBRIGHT. What is the correct figure? These are 1969 figures, of course. Anything of this nature that comes up just a month before an election, it seems to me are always suspect. We have the southern strategy and all these other things that influence these figures just before an election. But I think 1969 is the last period in which you have reasonably objective figures.

Secretary STANS. The manmade fibers used in textiles and apparel now have more than 50 percent of the total textile fiber market in the United States.

Senator FULBRIGHT. According to Department of Commerce figures, in 1969 manmade fiber and textile manufacturers represented only 5.5 percent of U.S. consumption. You say 50 percent?

Secretary STANS. Yes.

Senator FULBRIGHT. Is that dollar volume?

Secretary STANS. Of volume, yes.

Senator FULBRIGHT. Dollar volume?

Secretary STANS. No, of poundage consumed.

Senator FULBRIGHT. What about dollar volume. Some of these imports are very primitive, if you are talking about jute and this type of synthetic jute, I don' th nk that is what we are trying to think of in this connection. These figures say 3 percent of the dollar volume of synthetic textiles. I just wanted to know if that is incorrect. If it is incorrect we would have to find out why.

Secretary STANS. I think, Senator, we ought to be sure what it is that you are asking.

Senator FULBRIGHT. Dollar volume of synthetic textiles.

Secretary STANS. Dollar volume in relation to the market United States.

Senator FULBRIGHT. Total United States market.

Secretary STANS. Are you speaking of the synthetics' share of that market in the United States or are you speaking of the import share of that market, I am not sure?

Senator FULBRIGHT. Well I will read the whole paragraph: "Imports of all textiles and textile products made of synthetic manmade fibers, cotton and wool amounted to 8.5 percent of domestic consumption in bulk pounds. They accounted for 4 percent of the United States market in dollar volume." This I think is indicated there by these large imports of cheap and bulky but not very valuable products.

"Imports of synthetic textiles and textile products supplied 5.5 percent of the United States market in bulk and about 3 percent in dollar volume."

Secretary STANS. I understand your question, Senator. We don't have those figures in dollars. At the present time, in June of this year, or the year ending in June, manmade fiber textile imports were 6½ percent of the market in the United States for those products.

Senator FULBRIGHT. These figures, it says "source: Federal Trade Commission, Securities and Exchange Commission, Quarterly Financial Report for Manufacturing Corporations" and some of these are from the Commerce Department.

What I am really getting at is it seems to me if it isn't so serious why isn't the escape procedure suitable and proper for these industries that really suffer injury?

Secretary STANS. Well, we have considered that. There is one principal factor in this, and that is again the growth rate, the massive growth rate, of 46 percent in 1970, as against 1969. Now to adjust would be impossible in the face of that kind of a growth rate, for the industry to adjust and to be able to accept that growth rate means it has to find other ways of finding jobs for those people, of developing diversification and so forth, and you don't do that that rapidly. This is the reason why we consider it a critical problem for the industry. If the growth in imports was 5 percent a year or something like that, there would be no difficulty. The industry would not be suffering.

Senator FULBRIGHT. Is the impact on the textiles much greater from imports than upon the steel industry?

Secretary STANS. The growth rate in textiles is much greater than on the steel industry. The overall percentage of the market, taken by, textiles is not as high.

Senator FULBRIGHT. It is not as high.

Secretary STANS. As it is in the case of steel.

Senator FULBRIGHT. Why don't you give relief to steel? Why isn't that included?

Secretary STANS. Well, there is a voluntary agreement now on the part of the European and Japense producers to limit their growth into the United States to 5 percent a year. A similar agreement on textiles wou'd be ideal but to go back to your question as to why don't we use adjustment assistance, the industry is so broad, there are so many people in it, that it would be an almost unbelievable task to determine which companies were entitled to adjustment assistance; it also would be a financing burden of tremendous proportions if we were to try to find ways to stem the injury to the industry in that manner.

Senator FULBRIGHT. Mr. Chairman, I have been handed a note that 5 minutes is up. I know Senator Miller had 10 minutes. Is there any difference between whether you are on this side or the other side of the chairman? He had a note too but took 10 minutes.

Senator FANNIN. Senator Fulbright has had approximately 9½ minutes.

Senator MILLER. Right.

Senator FULBRIGHT. Well, I don't care to take all the time. I will wait until next time. I did want to ask the Secretary one question about the DISC, how that would work in the case of an oil company that owns a coal company that exports primarily to Germany and so on. It is already doing that. Would this apply to an oil company with very large foreign investments and production. Would it apply to its subsidiary that is exporting coal?

Secretary STANS. Yes, it would.

Senator FULBRIGHT. And even though they presently pay taxes upon it they would then be excused from paying taxes.

Secretary STANS. The subsidiary would be excused from paying taxes on its profits so long as it used the profits for the purpose of export trade.

Senator FULBRIGHT. Could the profits be set off against foreign taxes, royalties paid?

Secretary STANS. No. There would be just a direct deferment of the taxes payable in the United States.

Senator FULBRIGHT. Well, I was told, I don't know, of course, that one of the principal motives for this DISC was the possibility of their offsetting foreign taxes against such taxes that would be deferred.

Secretary STANS. I don't quite understand how that would be the case. The motivation insofar as I am concerned and insofar as I believe the administration is concerned is a desire to create an incentive for American companies to keep their plants in the United States instead of building them overseas in other countries.

Senator FULBRIGHT. I understand your motive. Would the President sign this bill if it were enacted as we have it from the House?

Secretary STANS. I don't know, Senator.

Senator FULBRIGHT. Well, he stated, hasn't he, that he would not.

Secretary STANS. I think it is a judgment that only he can make at the time the bill gets to his desk in the light of all the circumstances then.

Senator FULBRIGHT. Well, I would like to know because I would like to support the bill that he is going to support and that he would sign. I don't want to vote for a bill he vetoed.

Secretary STANS. Well, my position here as an administration position is that we neither support nor oppose the bill. There are many things in it that we like. There are some things in it that we don't like as we have pointed out.

Senator FULBRIGHT. Thank you.

Mr. Chairman, I ask unaminous consent to have inserted in the record, a discussion by the chief economist of the United States-Japan Trade Council, on the effect which import quotas have on prices.

The CHAIRMAN. Without objection.

(The material referred to follows: Hearing continued on page 238.)

IMPORT QUOTAS AND PRICES—A REPLY (By Dr. Stephen D. Cohen, Chief Economist United States-Japan Trade Council)

In the current debate on U.S. trade policy, one of the chief arguments against the imposition of import quotas has been that restrictions on foreign compeiition would lead to price increases in the restricted products. A recent study by O. R. Strackbein, President of the Nation-Wide Committee on Import-Export policy, has attempted to demonstrate that this thesis is erroneous, and that there is no cause and effect relationship between import quotas and domestic prices. While the study succeeds in showing that import quotas by themselves do not necessarily lead to major price increases for each protected product, its conclusions are rendered invalid by its failure (a) to discuss major quota-protected products whose prices have significantly increased, and (b) to take into account government price support operations which have massively interfered with the normal effect of supply and demand factors on market prices.

To examine the critical factors neglected by the Committee study, we will first look at the price movements of two commodities with major impact on the economy, each of which is under quota restrictions but whose prices are otherwise unaffected by government intervention. Then we will examine a series of commodities under quotas whose prices are substantially controlled by government subsidies, price supports and other artificial market distorting practices.

QUOTAS AND PRICES IN OPEN MARKET SITUATIONS

Meat

The price of meat is as significant a factor in the family budget as the price of steel is in the American economy. Beef and veal, which account for most of the meat production and consumption in this country, have experienced sharp increases in prices during the past few years. The retail price index (1957–59=100) for these two meat products in May, 1970, stood at 135.9, a gain of 8 points in one year and 18.8 points in two years. Choice grade beef is now selling at 99 cents per pound and veal at $1.22 per pound. Two years ago, the respective prices were 86 cents and $1.00.

There are two primary reasons for this upward price spiral. First, domestic production has not increased as fast as total domestic demand. The resulting price increases have belatedly encouraged an expansion of cattle herds, but due to the relatively long period required for the development of mature cattle for slaughter, supply has not yet caught up with demand. This disequilibrium is in turn fostered by the second factor in the recent price increases of meat: import controls.

Despite rising consumer demand coupled with a bare one percent increase in 1969 in domestic production of beef and veal, growth in meat imports has been restricted by a complex quota mechanism. A base quota is established each year. Should the Secretary of Agriculture anticipate that covered meat imports might exceed 110 percent of the quota in any year, the President is required to invoke the quota. Unfortunately for the consumer, the annual quota is based on a formula utilizing average import data for 1959–63 and changes in domestic production since then. But changes in domestic production have not reflected changes in demand. The result has been that despite a steady increase in both the per capita consumption and price of beef, imports in 1969 by weight were actually less than in 1963, the year before meat quota legislation was enacted.

In June of this year the President raised the 1970 base quota slightly in the name of the "overriding economic interests" of the United States. The increase in meat imports as a result of this action will be minimal. If foreign beef producers are allowed to increase their current share of about 7 percent of the U.S. domestic market by any significant amount, beef prices will increase less rapidly or perhaps even stabilize.

Steel

Since January 1, 1969, Japan and the six European Community countries have "voluntarily" restricted their exports of steel to the United States. Because these seven countries accounted for more than 80 percent of foreign-produced steel sold in this country, imports in 1969 declined in terms of tonnage and as a percentage of total domestic production. The restraint arrangement stipulated that import growth during the three-year agreement would be limited to not more than five percent of the previous year's ceiling.

A major element of competition having been removed, steel prices quickly began to rise. Statistics published in *Iron Age* magazine show that at the end of 1968 finished steel prices per net ton averaged $131.76, virtually unchanged from the previous year's figure. Following adoption of the "voluntary" restraint agreement, the price per net ton of steel increased to $140.84 on July 3, 1969 and to $156.26 on July 2, 1970. The latter represented a 19.5 percent gain from the period immediately prior to import restraints. Despite the widespread impact of steel's price on the rest of the economy, wholesale prices of all commodities during the same time span increased by less than 10 percent.

QUOTAS AND PRICES IN SPECIAL MARKET SITUATIONS

Cotton

Despite continuation of an international agreement begun in 1962 under which exporting countries "voluntarily" agreed to limit exports of cotton products to the U.S., the wholesale price index for cotton products has been relatively stable.

But it is necessary to examine the extraordinary factors which prevented import quotas from inducing more rapid price increases. The price of cotton products has not increased significantly because government subsidies have been introduced for the specific purpose of reducing the price for raw cotton which must be paid by domestic mills. Mounting surpluses and the growing competitive pressures of man-made fibers led in 1966 to a revision of the government's price support program for cotton. At that time, the basic loan rate, or price support level, was cut from 29 cents a pound to approximately the current 20 cent level. The resulting decline in the sale price of cotton was offset by adoption of large scale direct subsidies paid to cotton growers who conformed to acreage controls established by the government. In this way consumers were spared major price increases, but all taxpayers shared the cost of more than $800 million in cotton subsidies doled out last year by the U.S. government.

Further retarding price increases has been the fact that cotton, even at its new subsidized price, has been progressively losing its market share in total textile consumption. There are few factors more effective in encouraging price stability than intensified market competition. The growing challenge to cotton sales by man-made fibers can be seen in the following table:

DOMESTIC CONSUMPTION OF FIBERS, BY PERCENTAGE

	Cotton	Wool	Manmade
1950	67.7	10.5	21.8
1959	62.4	8.1	29.5
1969	40.8	4.2	55.0

Source: USDA.

Falling demand is also associated with price stability, and total cotton production in this country in 1969 was one-fourth less than it was in 1960.

Wheat

The Committee report points to the steady decline in the wholesale price of wheat, which has been under severe import restriction for nearly thirty years. It neglected to say that the price decline is attributable primarily to a decision by the Johnson Administration to further tighten acreage controls on wheat production by reducing indirect price supports and emphasizing direct supplementary payments to participating farmers. Whereas in the 1957–59 base period, the support price for grain averaged just under $2 per bushel, by 1965 that price had been dropped to the $1.25 level which still remains in effect. In addition to enabling the government to apply greater pressure on farmers to comply with acreage allotments, the policy of driving down the wheat price was aimed at making wheat more competitive with corn as a feed grain. With lower prices, the use of wheat as a feed grain has increased more than eight-fold since 1963, the last year of the higher wheat support price.

The irony of the quota on wheat imports is that its elimination would have little or no effect on domestic wheat prices: this country is still too efficient in wheat production for other countries to profitably penetrate the U.S. market. The U.S. has traditionally exported about one-half of its total domestic wheat crop. The quota can best be characterized as a marginal contingency measure, a carryover from an earlier period which has been allowed to remain on the books through bureaucratic inertia.

The price of import-protected wheat has fallen more than twice as fast as corn, which enjoys no import protection, because the parity price of corn has not fallen as sharply as that of wheat. Between 1950 and 1969, the support price for wheat fell by 75 cents, while the support price for corn fell by only 42 cents. Despite the absence of quotas, corn imports have not provided a meaningful impetus for further price reductions because corn is produced in the U.S. with high efficiency. This country's international competitiveness in corn may be seen from the following data (1967 figures expressed in 1,000 bushels): Total Corn Production, 4,760,076; Exports, 633,727; Imports 915. (Source USDA).

Petroleum

It is indeed true that current data show that the wholesale price index for petroleum since 1957–59 has performed favorably relative to all commodities. To keep matters in perspective, however, two points must be emphasized. First, the wholesale price of domestic petroleum for the past several years has exceeded the average cost of imported petroleum by almost 50 percent (or $1.30 per barrel). The recent report of the President's Cabinet Task Force on Oil Import Controls estimated that in 1969 American consumers paid $5 billion more for oil products than they would have paid in the absence of import restrictions. This excess payment results from the oil import program, which not only places quantitative limits on imports of relatively less expensive foreign-produced petroleum, but guarantees that petroleum importers can sell their allotments at the higher domestic cost.

Secondly, the oil import program is not all-inclusive. Imports of residual fuel oil used by utilities, factories and institutions have not been restricted since 1966 on the East coast of the United States, an area which accounts for 71 percent of the demand. In addition, petroleum imports shipped overland from Canada and Mexico up until early 1969 were also exempted from restrictions. The WPI figure for petroleum products thus partially reflects freely admitted imports.

The oil import program is unique in the sense that quotas were imposed by a 1959 Presidential Proclamation rather than by legislation. Constant political pressures for termination of the quotas have come from the Northeastern states, which pay disproportionately high prices for petroleum, and the President's Task Force studying the program recently recommended that tariffs replace existing oil quotas. The fact that the Presidential order could be quickly rescinded without the relatively lengthy process of Congressional action has in the past imposed a special kind of pressure on the domestic petroleum industry to refrain from substantial price increases.

Under the current quota system, authorities in the states with effective "market demand prorationing," principally Texas and Louisiana, restrict production to what is needed at the prevailing price and thereby control both price levels and domestic output, in effect, they move the supply curve to meet changes in demand. Not only would a falling demand merely result in a lower supply, but the prorationing principle guarantees the continued operation and market share of the relatively inefficient producers at the same time that it discourages further cost reductions by the more efficient producers. Downward pressures on petroleum prices are therefore all but nonexistent.

Certain segments of the petroleum industry are currently sponsoring an amendment to the trade bill being considered by the House Ways and Means Committee which would have the effect of reenforcing the maintenance of oil import quotas. By denying the President the tariff alternative to ensuring American national security (the basis for protecting the domestic oil industry in the first place), such legislation would revoke the possiblity of restoring even a limited element of free market competition or of ending the current practice of allowing holders of oil import licenses to sell their imported oil allocation at the higher domestic price. Should quotas receive this legislative reenforcement, the resulting effect on domestic petroleum prices would be far more illustrative of the impact of quantitative import controls than is likely under the current administrative arrangement.

The Committee's report not only mistakenly takes satisfaction in the recent domestic price performance of petroleum, but it stresses the relatively large price increase in coal, a competing energy source which enjoys no import protection. There is no mention of the fact that the U.S. is the world's most efficient producer of high quality coal, and consequently is the world's leading coal exporter. Nor is there any explanation of the spiraling domestic and overseas demand for coal which has bid up its price. In 1969, U.S. coal exports increased by 12 percent, and in the first five months of 1970 have jumped another 30 percent. Foreign and domestic demand is so strong relative to the existing supply that a Commerce Department official recently told the industry that it did not produce enough coal in 1969, and warned that if present domestic shortages should worsen, the possibility of export controls could not be ruled out. The imposition of such controls—in effect externally imposed import quotas on U.S. trading partners—would inevitably aggravate the world-wide coal shortage and contribute further to price increases, despite the Committee's assertion that quotas have no effect on prices.

Dairy products

The rather substantial rise in the wholesale price index for dairy products (35 percent over the 1957–59 base) is dismissed in the Committee's report with the assertion that factors other than the import quotas have influenced the price. Surprisingly, however, the single most important factor—the U.S. government's price support programs—is not mentioned. The USDA report on the dairy price price support program during the 1949–68 period begins with the following statement: "Prices received by dairy farmers have been substantially higher since 1949 than they otherwise would have been as a result of price support purchases of dairy products by the Commodity Credit Corporation and other related program activities." It was probably only because of the nearly one-third increase in the price support between 1958–59 and 1969–70 for manufacturing milk that the price of dairy products could increase. For in this same time period, steadily declining per capita consumption of milk products (26 percent between 1950 and 1968) resulted in a total production and consumption of milk products in the U.S. in 1969 which were actually lower than the comparable figures of 1955.

If imports had not been restricted to an average rate of about one percent of domestic production during the past ten years in order to protect support price levels, the declining aggregate demand for dairy products would have combined with foreign competition to drive prices down. The aforementioned U.S.D.A. report explains that "U.S. market prices of dairy products generally have been enough higher than the export prices of foreign exporting countries to make the United States an attractive market for the foreign exportable supplies."

The effects of price support operations for dairy products can be summed up in the following statistic: the price index for prices received by farmers (1957–59=100) in 1969 stood at 120 for dairy products and 114 for all farm products. (Source USDA).

Sugar

The Committee points to an increase in the retail price of quota protected sugar of only 28.8 percent since 1955 as proof that import quotas do not raise prices unreasonably. But it is necessary to point out that the price pattern of sugar has been a function of the government's complex price support program. Each year a combination of acreage and marketing allotments and import quotas and tariffs is utilized to assure that sugar remains near the price level predetermined by the Secretary of Agriculture. This procedure has accomplished its specified objective of price stability for sugar. Price increases have been steady, but gradual.

It seems logical to assume that increased foreign competition would have discouraged the aforementioned 29 percent price increase, in view of the fact that world sugar prices are currently a little less than one-half of domestic U.S. prices. A unique wrinkle in the sugar quota program requires the American importer to pay prevailing domestic rates. The beneficiary of the difference between domestic costs and lower foreign costs is the foreign producer rather than the American consumer. The wholesale price index for sugar may have gone up less than for other commodities, but the regulation of imports has not been without great cost to the consumer.

Peanuts

Because of the U.S. support price program for peanuts, the domestic price is approximately double the world market price. Imports of peanuts in recent years have been restricted to less than one-tenth of one percent of total domestic production. Peanuts produced abroad are such a bargain that it takes only one day (August 1, the beginning of the marketing year) for the entire annual import allocation to be grabbed up by domestic businessmen.

Despite the fact that there has been a sharp uptrend in yields per acre which has further contributed to the domestic surplus of peanuts, the estimated 1969 support price of 12.7 cents per pound to farmers is a 27 percent increase from 1960. The wholesale price index for peanuts increased by about the same amount during that period, while prices received by foreign peanut producers in Nigeria, a major producer, declined from five cents to 3.7 cents per pound. Currently while the American consumer is being forced to pay double the world peanut price, the Commodity Credit Corporation is exporting peanuts for about one-half the U.S. support price. Forced to absorb about one-fourth of total U.S. peanut production as part of its price support operations, the CCC disposes of a portion of its stocks by selling peanuts abroad at competitive world prices.

CONCLUSION

When competition is diminished by import quotas one of two things will happen. In a free market situation, there will be a noticeable upward pressure on prices. If there is a special market circumstance, such as predetermined price levels artificially maintained by government intervention, prices will move in response to the type and magnitude of the intervening factor. The establishment of quotas to protect a domestic industry or a government support price from open market competition involves a permanent economic cost which must be paid either by consumers or, as in the case of cotton, by all taxpayers. Any perversion of free market competition eventually results in direct economic burdens on everyone in the form of subsidies to the protected industry and denials of cheaper alternatives, as well as the indirect costs of minimizing incentives to producers to innovate and modernize.

No one can predict in advance with any precision exactly what price increases will be induced by the import quotas now under consideration in Congress. But the law of supply and demand is elementary; it cannot be wished away by trying to deny the economic costs of a restrictive trade policy. A reduction in supply at a time of a stable or rising demand will inevitably foster upward price movements except where governmental intervention controls prices or payments to producers. Foreign competition stabilizes prices by adding to the supply factor and encourages research and innovation by domestic producers unwilling to suffer a decline in their market share.

Import quotas can put a cosmetic glaze over a domestic industry no longer able to produce a product more efficiently than its foreign competitors. But someone must pay for this artificial distortion of market forces. Inevitably that someone is the consumer, whose real income is diminished to the extent that he must subsidize his government's determination to stifle foreign competition. A ceiling placed on competitive or cheaper goods can only encourage upward price movements in any normal marketplace. Try as they may, protectionists will never succeed in selling quotas as a boon to consumers.

The CHAIRMAN. Senator Jordan.

Senator JORDAN. Thank you, Mr. Chairman.

Mr. Secretary, did I understand you to say that certain foreign export countries are moving toward stabilizing at about a 15-percent advantage for their own export business?

Secretary STANS. Well, yes, in the sense that they are adopting a uniform border tax system in the European Community, in the Common Market countries.

Senator JORDAN. They are doing that by the uniform value added tax or rebate concept.

Secretary STANS. Yes, they are going to a uniform value added tax concept.

Senator JORDAN. These are only the European export countries. This does not obtain in Japan or Hong Kong or other Asian countries.

Secretary STANS. Not at the present time, although a number of other European countries not in the Common Market are moving toward the same tax system, and it seems to be getting fairly broad general acceptance.

Senator JORDAN. We have no authority at the present time to establish a similar border tax system?

Secretary STANS. We think that we do not have authority to establish an effective border tax system.

Senator JORDAN. I want to find out a little more about DISC, because it seems to me this does give some prospect of immediate relief. It seems to me if an exporting corporation can set up a separate corporation devoted exclusively to the export business and can plow back the profits from that operation and rotate them in export, for export purposes, so long as they don't deliver those profits to the parent company, they can go on indefinitely, could they not, and be tax exempt from income taxes.

Secretary STANS. They could so long as in that circumstance they also increased their exports and the need for capital in the export business. If they did not increase their exports then at some point they would not have the need for the capital and they would pay tax on it.

Senator JORDAN. Yes, but assuming they increased their exports would this not give them a better advantage taxwise than the 15-percent advantage you talk about in value-added tax in the European countries?

Secretary STANS. No, I don't think so, because the—as has been pointed out earlier—the real advantage that the American company has by this process as a deferment of tax is effectively the use of additional capital without paying interest on it.

Senator JORDAN. Yes.

Secretary STANS. That is not nearly as great for us as a trading nation as the 15 percent disadvantage that an American company has in selling in Brazil, for example.

Senator JORDAN. I understand it is not a complete——

Secretary STANS. I don't think the two are exclusive, I think we can very well have the DISC and the value-added tax.

Senator JORDAN. I see DISC is not a complete forgiveness of the tax but it is a postponement indefinitely just so the criterion will be set up for its purpose.

Secretary STANS. That is correct so long as it is used in export trade.

Senator JORDAN. Has the DISC concept been implemented in any country, to your knowledge?

Secretary STANS. I don't believe there is a DISC concept as such in any other country but the other countries in the world have a great variety of incentives for exporting, and I am sure that some go farther than this, some of the South American countries that have export incentives that go even farther than the DISC proposal.

Senator JORDAN. What has been the reception of this DISC concept among our exporting corporations?

Secretary STANS. Almost universal approval of it, and this is true for corporations of all sizes including small corporations as evidenced by the statement in my testimony that the Small Business Committee of the National Export Expansion Council believes it is important for small business companies that can get into the export business and are not in it now.

Senator JORDAN. I understand certain agencies in the Government are giving thorough research and scrutiny to the value added tax for possible recommendation.

Secretary STANS. Yes, the Treasury Department has a very thorough study of the value added tax underway right now.

Senator JORDAN. In your opinion, the implementation of DISC would be a standby relief measure until such time as we might give consideration to a value-added tax.

Secretary STANS. It certainly would, and at that point it could be determined whether the value-added tax should replace the DISC or whether the two should continue or whether some other combination should be devised but I think the administration and the Congress should look very seriously at this question of the tax advantages and disadvantages that now exist in export trade.

Senator JORDAN. Thank you.

The CHAIRMAN. Senator Ribicoff.

Senator RIBICOFF. Mr. Secretary, I gather from your testimony that you like parts of H.R. 18970 and you dislike other parts of it. Do you like what is in it more than you dislike what is in it?

Secretary STANS. Well, I think, Senator, I would like to defer that answer to the President. It will be his final decision when the bill is put before him as to whether the good outweighs the bad.

Senator RIBICOFF. Mr. Secretary, it is not quite that easy. This bill can't come up until we have a lame-duck session. This bill is going to be riding piggyback on the social security bill which the President wants. It is going to also have attached to it the welfare reforms that the President wants.

Don't you think the President of the United States has an obligation to tell the Congress and the people of this country whether he is going to allow the social security bill and the welfare bill held hostage to a trade bill such as this.

Secretary STANS. Well, of course, Senator, the administration's proposal was never on the basis of attachments to either legislation or being held hostage. We made a proposal of a trade bill, made supplementary proposals to that to include textile quotas and to include the DISC and we agreed to some changes that were made in the House. There are a number of things which we did not propose, and which are not part of the administration policy and under those conditions it would be up to the President, with the advice of his administration, to decide whether he wanted the bill as a whole.

Senator RIBICOFF. But we are not acting here in a vacuum. You know what is going on, Mr. Secretary, and I am sure the President knows what is going on. We have 2 days of hurried hearings on a very important matter. It is going to be attached to the social security bill. Does the trade bill stand on its own? If it is weak, will it be adopted and signed because it is part of social security and welfare? This is a basic decision of policy and I think the President of the United States has the obligation and the responsibility to tell the people of this country what he wants.

If this is an improper way to do it then I think the President ought to say: "I will wait for the next Congress to decide what ought to be done on important matters such as social security, trade and welfare."

Secretary STANS. Well, Senator, you know the matter of congressional prerogatives much better than I do. But I think it is perfectly conceivable that the Congress would pass a bill in any frame and any terms and the President would make his decision after he sees it and studies it in relation to the whole and in relation to all of the circumstances that surround it, and this is the administration's position at this time; That the President will look at the bill when it is on his desk.

Senator RIBICOFF. Look at the trade bill, look at the social security, welfare and trade bill.

Secretary STANS. In whatever form the Congress presents it to him.

Senator RIBICOFF. In other words, the President will not make his position known on a matter of such grave importance to the future of this country.

Secretary STANS. I am not sure that we even know what the combination is likely to be by the time it reaches the President's desk and what the social security and welfare provisions are going to be. So that if it comes to him in that kind of a package, only he can make that decision.

Senator RIBICOFF. Well, let me ask you this: Do you think, as Secretary of Commerce, that the trade bill should be attached to a social security and welfare bill? Is that where it belongs?

Secretary STANS. I have no judgment on that. I think that is a matter of congressional prerogative to decide.

Senator RIBICOFF. You mean as Secretary of Commerce you don't have a judgment whether it is proper to tie up a trade bill with a social security bill.

Secretary STANS. I think it is certainly proper and legal, it has been done many times. Whether it is the most desirable course I wouldn't know in this particular case.

Senator RIBICOFF. One question, Mr. Secretary: This bill freezes in the oil quota system, does it not?

Secretary STANS. This bill continues the provisions of the law with respect to oil quotas but provides that they may—that the imports of oil into the United States may—not be regulated by a tariff.

Senator RIBICOFF. So basically what we are dealing here with is a freeze in of some $5 to $7 billion for the oil companies on the back of the consumers of this country.

Secretary STANS. Senator, I couldn't agree with that statement at all.

Senator RIBICOFF. You can't agree with that statement.

Secretary STANS. No, I spent very, very many days last year as a member of the Cabinet task force on oil imports studying this matter, and I think it is quite clear from the events that have taken place since that report was delivered that had we gone to a tariff system last year we would now have great difficulty getting oil into the United States and it would cost the consumers a lot more than it does under the present system because of the circumstances that have taken place in the Middle Eastern countries. The shortages of tankers and all that have pushed the price of imported oil up very high, so that I think subsequent events have vindicated the judgment of those of us who said last year that the tariff system was not workable.

Senator RIBICOFF. What do you estimate—one final question—Is the figure of $650 million correct as what it will cost the Treasury for DISC?

Secretary STANS. Well, I have to rely on the Treasury judgment on that. I accepted it as approximately correct when it is in full effect.

Senator RIBICOFF. $650 million?

Secretary STANS. Yes.

Senator RIBICOFF. Thank you very much.

The CHAIRMAN. Senator Fannin.

Senator FANNIN. Thank you, Mr. Secretary. I commend you for a very excellent statement and I agree with you that DISC was long overdue.

Secretary STANS. Thank you.

Senator FANNIN. But I think that is really just a start. What I am worried about is why we are not getting greater protection of the American worker. We have jobs being exported daily—thousands of them because of the imbalance in the tariff that is now in existence. That here we have the European countries, the Japanese shipping cars, for instance, into the United States that when it comes to the Kennedy round on GATT, a 4½ percent tariff, is it not, on those cars?

Secretary STANS. I don't know the percentages.

Senator FANNIN. It is 4½ percent going down to 3 in 2 years.

Secretary STANS. Yes, that is correct.

Senator FANNIN. And here we have when we want to ship an American car to Japan and it is 17½ percent to start with and many other nontariff barriers. It is certainly not a quid pro quo, it is a closed door policy. When we are talking about the European countries then we are talking about a 12-percent tariff. I can't understand why we continue this imbalance. Do you have any thoughts in that regard. Here we have hundreds of millions of dollars involved if we could just balance the tariffs. In other words, if the Japanese are going to charge us 17½ percent why shouldn't we charge them 17½ percent?

Secretary STANS. Well, I have strong thoughts on that, Senator, and very simply, they summarize like this: That I think we, as a Nation, through the years, have been relatively soft in our trade policy, particularly as it affects the nontariff type barriers that other countries have imposed.

Senator FANNIN. Yes.

Secretary STANS. And as to types of preferential agreements and so forth that other countries have negotiated among themselves even in violation of their international agreements.

I think the time has come for us to insist on total reciprocity between ourselves and other countries. Now that might not necessarily mean total uniformity in tariffs because the tariff system can recognize other factors. But I think we should seek from now on every time there is an adjustment in trade practices or tariffs or nontariff activities and so forth, that it should be done on a basis of total reciprocity between this country and other countries. We can no longer be the country of great wealth that can hold an umbrella over the development of so many other countries.

Senator FANNIN. And we are doing just that, and I would say this. We have many of our corporations that are going abroad, they are making greater profit by doing so, but we are taking American jobs overseas, that is my great concern, and I think we must do something about it, especially if we look at the electronics industry. Here we have, we let them, many of their goods come in, let's say, under 6 percent and we try to get something in their countries, like in Japan about 24 percent, it is so very unfair. And I know that letters have been written to you, and I know you are in agreement with some of the recommendations that have been made. I just can't understand why we don't do something at once because you do mention the other trade barriers, for instance, in Japan, if you send a car over there, there is a weight charge, it is a horsepower charge, a wheel base charge, and this is so derogatory to the American worker and American manufacturer and we cannot compete.

Supposedly under GATT it is to equalize. Instead of that they can manufacture a car for much less than we can, and so if we were working on that theory, we would have about a 30-percent tariff on their cars and they would have about a 10 on ours, if you took it on the basis of the cost of manufacturing; so it seems very unfair.

But getting to the problems we are talking about on the countervailing duty laws and the other foreign trade regulatory laws, I am concerned. For instance, the Antidumping Act has a severe time problem. In the past 2 years a total of 10 dumping complaints have been processed through to a final decision. In eight of these, dumping duties were ultimately assessed, but the time it took to reach this result is frightening. The shortest time which elapsed between the filing of the complaint with the Treasury Department and the imposition of dumping duties was 11 months. The longest period was 2 years and 3 months, and the average time elapsed was more than a year and 8 months. The Antidumping Act like the countervailing duty law is only rarely enforced and for the same reason. If a domestic producer files a complaint with the Treasury and Treasury decides not to enforce the act there is no appeal. On the other hand, if dumping duties are assessed against an importer he can appeal.

I would like to have your opinion on a proposal I have introduced. What I proposed was to allow the party aggrieved by the agency action to appeal directly to the Court of Appeals of the District of Columbia. Such a procedure would produce a more consistent administration of our international trade regulatory laws and would cause a body of law to be developed which could be consistently adhered to until changed by the Congress. I think this would be much more fair than what we are applying at the present time.

Secretary STANS. Well, Senator, the responsibility in this field is in the Treasury Department.

Senator FANNIN. Yes.

Secretary STANS. And I would prefer that they be the ones to develop the administration viewpoint on your suggestion and I am sure they would be quite willing to do it.

Senator FANNIN. I appreciate that and I will, Mr. Secretary, but I am so concerned about it because this has been a continuous problem, and as you were saying here we have flooding of our markets with the domestic radios, over 90 percent, and then shoes for instance, going from 3½ percent in 1959 and 37½ percent in 1969, and I just can't understand it. Most any way you look at it, it is going to be disastrous to the American worker if we continue this policy for any length of time. I can see by 1975 or 1980, a very serious problem. We must have people employed to buy the merchandise, and if we look at this over a period of time and the percentage of workers that are out of jobs, and I have one illustration of this was in a letter to you. A letter from one of the large manufacturers of electronic equipment, and when he said that when they finished their plant in Taiwan in 1971, and it goes on stream, 30 percent of their workers in the United States will be out of work. So this is so very serious, I just wonder if you would want to comment on that.

Secretary STANS. Well, of course, the underlying element that allows all this to happen is the disparity in wage rates in these various countries. In the case of textiles we pay approximately $2.40 an hour for textile workers; in Japan it is less than 60 cents even now; and in Korea, Taiwan, and Hong Kong it averages under 20 cents an hour.

Now, this is one of the reasons this is such a complex subject—we want to keep people at work in this country. At the same time we want to have our consumers have the benefit of lower prices, and the tough job that the Congress has, and we have in the administration, is to find the balancing point. I think the balancing point is the one at which we avoid the kind of shock to an industry that now exists with respect to the textile industry resulting not from imports over a gradual rate over a long period of time but from what I call a tidal wave of increases of 40, 50 percent a year.

Senator FANNIN. Well, if those consumers don't have jobs, Mr. Secretary, they are certainly not going to be able to purchase the merchandise, and that is my greatest concern, because, as I say, the corporations can make more money by going into Taiwan, for instance, in the electronic industry, and employing people for 16 to 24 cents an hour, and those are the figures that were given to me as existing there, and in discussing this with the gentleman who had just been over in those areas investigating what could be done, and this is a very alarming situation. But I still can't understand why we don't do what it is possible for us to do, to give some protection to these industries, because it certainly isn't fair to let them bring that merchandise back here on 6 percent and then we can't get the merchandise to their countries for less than 24.

Secretary STANS. I think the real irony of all these illustrations is that we and others are not allowed to ship freely textiles into Japan at all.

Senator FANNIN. Yes, and that is true, for instance for much of the electronic equipment. I know a manufacturer who wrote to you, in which he sent me a copy of his letter, saying that they could not even get one set, TV set, into Japan. They have been trying to do so for some time. They sent survey teams over to see what could be done and it has just been a closed door policy. Now I am just talking about electronic equipment.

I was in a dental office a few days ago. They had a new chair, dental equipment, highspeed drills and all, and here it came from Japan, and we can go to most any building and different types of offices and you will see that the electronic equipment or whatever it might be utilized in those buildings is coming from foreign countries. This just can't continue or we are not going to be able to maintain the economy that we have today.

Thank you very much, Mr. Secretary.

The CHAIRMAN. Senator Hansen.

Senator HANSEN. Thank you, Mr. Chairman.

First of all, Mr. Secretary, let me compliment you on your response to Senator Ribicoff. I think that you called attention to a fact that much of the eastern press just refuses to recognize as existing. They seemingly don't know that the oil import program hasn't penalized the American consumer. Actually, it has been the best thing that happened to them. There isn't \$5 or \$7 billion to be saved if we had a tariff plan substituted for the oil import program. It is the other way around. When Dr. Wilson Laird testified on October 2 he pointed out that residual fuel oil in New York now, and there never has been any quota, any tariff, on this oil at all, as you know, for the last 5 years, which a year ago was selling for $2 a barrel. Now it is selling for $3.25 a barrel, and I hope sometime somebody with some responsibility will take note of the fact that this oil situation isn't what a lot of people would try to make some of us believe it is.

I want to compliment you on your underscoring the concern you have for a growing number of workers in this country from minority groups which form the backbone of the livelihood of hundreds of thousands of farmers and other producers as well. They are all being threatened with serious disruption and dislocation if a reasonable pattern of imports is not established promptly. The distinguished Senator from New York, Mr. Javits, wrote me on the 28th of September asking my support for an amendment that he and the distinguished Senator from Wisconsin, Mr. Nelson, proposed or rather as a matter of fact, had introduced already, to increase the appropriation for HEW by some $149 million. One of the points that he makes is that there isn't nearly enough money in this program to carry on the manpower programs under the Economic Opportunity Act. He says that with the added budget that was recommended by the administration, they were meeting the needs of less than one-tenth of those on welfare and in poverty generally who could achieve economic independence through such programs.

Now, of course, Senator Javits is entirely right in focusing attention on this problem. He knows, I am sure, that the textile industry employs more than 224,000 people in New York City alone, and that just last year 65,000 textile apparel workers lost jobs since January 1969, and also that 250,000 new jobs might have been created in this country, if we had been producing the fabrics and the materials that are being imported now. When we consider that last year alone 27 plants in the United States were shut down completely, I think we can begin to understand why you are so concerned about some of the treatment we have been getting from foreign countries.

I know in my State of Wyoming, I don't find much enthusiasm for those people who say "Well, we have got to have freer trade and we have got to be tolerant of these emerging countries because in the long run it is a good way to fight inflation."

You know people out in Wyoming would much rather pay a slightly higher price for a few products made in the United States if they can pay the bill with a paycheck instead of having to go down to the welfare office and get a relief check, and take advantage of a slight drop in prices for imported products. They aren't one bit interested in substituting the advantage that they now have being on a job rather than unemployment pay.

I would like to ask you, don't you think in light of what has taken place that it is pretty important that we take some action and that we take that action quickly if we are going to fulfill the promises we have been making to the unemployed in this country, if we fulfill the promises that the President has in mind in welfare reform, in trying not to increase welfare collection but to expand work opportunities in this country, we have got to do something about making more jobs available for people in the United States.

Secretary STANS. Senator, I would hope for one other reason that the Congress would take action on this bill, taking into account our reservations about some parts of it, and that is many of us who have spent an unbelievable amount of time on trade matters this year that would be resolved if we had legislation, and I would not want to go through all of this again. So far all the reasons you have said, yes, I hope that the Congress will act on a trade bill and will take seriously into account the recommendations and position and reservations that the administration has expressed on the various points.

Senator HANSEN. Mr. Secretary, isn't it your sincere belief that a majority of the people in this country on welfare would much rather have a job if jobs were available for them, where they could be working and could be earning their keep and supporting their families, than to have to look to increased welfare checks for their sustenance and for the support and care of their families?

Secretary STANS. I think certainly that most of the people on welfare would rather work, yes.

Senator HANSEN. I have no further questions, Mr. Chairman.

(Senator Hansen subsequently requested that the following statement be included in the record:)

REMARKS OF DR. WILSON M. LAIRD, DIRECTOR, OFFICE OF OIL AND GAS, DEPARTMENT OF THE INTERIOR, BEFORE THE ANNUAL MEETING OF THE ROCKY MOUNTAIN OIL AND GAS ASSOCIATION, DENVER, COLO., OCTOBER 2, 1970

It is a pleasure and a privilege to be able to participate with you in your annual meeting of the Rocky Mountain Oil and Gas Association. Although the Census Bureau and even the Department of the Interior have North Dakota identified with the North Central region of the United States, as a petroleum geologist I have always felt a provincial kinship, let us call it, with the Rocky Mountain region.

So although my legal domicile may be in the Great Plains, my geologic home is in the Eastern Rockies, and I was happy to see that the National Petroleum Council made that concession in its recent report on *Future Petroleum Provinces of the United States.*

If any of you have not obtained copies of this report, I urge you to do so. It represents the summary findings of the first comprehensive study that has been made of the petroleum potential of the United States since the Symposium of the American Association of Petroleum Geologists on petroleum provinces of the United States in 1951. The Association cooperated with the Council in this effort, and the detailed supporting data will be published by the Association later under the Council's sponsorship under the title "Memorandum 15."

It would be hard to pick a more appropriate time for the emergence of a study dedicated to the potential for finding domestic oil and gas.

Certainly there was never a time within my own memory when the need for the full exploitation of our domestic fuel resources was greater.

There is, as a first consideration, the enormous needs for energy that lie ahead of us. Between now and 1985—just over the next fifteen years, we shall need 100 billion barrels of oil, and by the end of that period we shall be using oil at the rate of 22 million barrels a day. Our gas requirements are even more spectacular.

We look for gas demand to exceed 400 trillion cubic feet, provided we can find that much. This is an average annual requirement of 27 trillion cubic feet over the period, with a 1985 demand projected for 32 trillion cubic feet.

Coal demand will rise from 530 million tons to 847 million tons, with total consumption over the 15 years exceeding 10 billion tons.

Against these requirements, we have the following recent history of supply:

Between 1955 and 1970—the same period of time I have just projected—our total consumption of petroleum liquids was 58 billion barrels.

Our domestic production provided 48 billion barrels of this.

During that period we added 51 billion barrels of oil to our proved reserves—just half of what our needs will be for the next fifteen years. In the case of gas, our total additions to reserves between 1955 and 1970 amounted to about 70 percent of what they will have to be between 1970 and 1985 if we are to supply our full requirement from domestic resources.

In the same period, we shall have to mine half again as much coal as we have done since 1955.

These gross figures tell little however, of the dynamics of our current domestic energy supply situation.

They compare only what has been done in the past with what must be accomplished in the future, without assessing the prospects for meeting our supply objectives.

Let me now address this aspect of the problem.

Our proved reserves of crude oil and natural gas liquids—that is, our total proved liquid hydrocarbon reserves, currently amount to 38 billion barrels. This is about 3 billion barrels more than the level was in 1955, when production was only two-thirds the current rate.

In consequence, the reserve to production ratio has fallen from 12 to 1 to 10 to 1. In six out of the last ten years, our proved reserves of crude oil have failed to equal withdrawals, and in 1969 reserves showed a decline of over a billion barrels.

Not only have the levels of reserves been declining, but the capacity to produce them has begun to decline as well. I can remember, and so can you, when overcapacity was one of the great burdens of the petroleum industry. No more. Productive capacity, according to both the IPAA and the API, has been declining since 1968.

In the face of rapidly rising production, this means that our spare capacity is melting away at a rate no one would have dared predict five years ago.

So now I dare to predict that it will be gone, for all practical purposes, by the end of next year, *if not sooner*.

Between 1965 and 1969, according to the IPAA figures, we lost 800,000 barrels a day of our spare capacity, and the disruption of world supply patterns, which I shall presently discuss, has caused us to draw down at least an additional 700,000 barrels a day in 1970 alone.

Since 1967 we have been unable to produce our full requirements for oil, although until the end of the Second World War we were the world's largest exporter of petroleum products. Now we are wholly dependent upon imports for at least 1½ million barrels a day—the difference between our productive capacity and our demand.

Turning now to natural gas, we watched, for several years, the narrowing gap between our additions to proved reserves and our withdrawals, as the reserves to production ratio declined from 20 to 1 in 1959 toward the critical level of 12 to 1.

In 1968 the crossover point was reached, and for the first time, withdrawals exceeded additions to reserves by over 5 trillion cubic feet.

The next year the deficit was 12 trillion cubic feet, and withdrawals are virtually certain to exceed additions again this year.

With the reserve-to-production ratio dipping below 13 to 1, as it will do this year, we are approaching levels at which we can expect the onset of deliverability problems. As the level of 10 to 1 is approached, these problems in deliverability are likely to become acute in certain areas.

As for coal, we have not produced our full requirement in the past two years—this despite a known supply measuring upward of a thousand years.

We may, with luck, just balance demand with production this year, but stocks of consumers are far below desirable levels, and prices have increased by 30 percent over last year.

The flat, unpleasant, but incontrovertible truth of the matter is that we are short of all kinds of energy, and we are due to remain in this condition for a good number of years to come.

Local and temporary palliatives may help to get us over the hard spots, but the basic trouble is of such nature that almost anything we may do to remedy it is going to take from three to five years to produce results.

For whatever comfort it may be in these circumstances, we are not alone in our predicament.

The energy crunch is worldwide, and every other industrial nation in the world is more vulnerable to its effects than we are. For this reason we cannot hope to find the answer to our problems in foreign supply sources, and I have only to cite current conditions to illustrate my point.

Today, the normal flow pattern of something less than three percent of the

Free World's oil supply has been disrupted—first by the shutdown of the Trans-Arabian pipeline, and second by the curtailment of crude production ordered by the Revolutionary government of Libya.

This means that the oil—about a million barrels a day—affected by these actions no longer could cross the short expanse of the Mediterranean on its way to market in Europe, but had to come from the Persian Gulf around the Cape of Good Hope—a shift that required five to six times the amount of shipping it formerly needed.

The world tanker pool was barely adequate even before these events, and it promptly became inadequate as soon as they occurred.

The result has been skyrocketing costs of shipping under short term charters, and a drastic decline in overseas crude oil shipments to the United States.

It now costs over $3.00 a barrel to ship crude oil from the Persian Gulf to New York on single voyage charters as opposed to $1.50 six months ago.

Reflecting these prohibitive costs, crude oil imports to the East Coast are running about 300,000 barrels a day below last year's levels.

We are making up this deficit in our crude oil imports by increased production from Texas and Louisiana, plus accommodating all the normal year to year growth in crude oil demand, both foreign and domestic.

We were able to do this because sound judgment prevailed over the council of certain Wise Men of the East who urged that all marginal production be shut in and that market demand proration be abolished.

Had we followed this bootless advice, however, there would have been no spare capacity anywhere in the United States that could have taken up the difference and cushioned the shock of the sudden drop in crude imports.

As it was, we were able, once again, to deal effectively with the disruptions of supply that are a regular feature of the world oil trade. Regrettably, this may well be the last time we can avail ourselves of this fortuitous shock-absorber inherited from the era of overcapacity unless more large finds can be located in the Lower 48. As our spare productive capacity diminishes to zero, we shall have the problem of devising other means to handle the contingencies that have until now been met by calling on our spare productive capacity.

The supply of residual fuel oil on the East Coast furnishes another example of the hazards of excessive dependence upon foreign supply sources.

Residual fuel oil has entered the East Coast virtually free of all restrictions since 1966.

As a result of restrictions on sulfur content of fuels adopted in recent years by the major consuming areas on the East Coast, residual has been displacing large amounts of coal in this area.

The result has been a tremendous increase in demand for residual fuel oil, of an order of twenty percent over last year, for example.

Because the East Coast now depands on foreign sources for nearly all its residual oil supply, increases of this magnitude can only be provided by sharply increased imports.

And although imports have increased, it is doubtful that they will increase enough to satisfy the full requirements of the East Coast for residual oil this winter.

Why? Because demand for residual was increasing all over the rest of the world, too, and we are in competitition with both Europe and Japan for a limited supply.

Moreover, this world pinch of residual fuel oil is going to go on for two more years at least, because it will be that long until refinery capacity is adequate to supply the volume demanded.

Now we see residual oil selling in New York harbor for $3.25 a barrel for grades with no sulfur guarantee, where two years ago it regularly went for $2.00 a barrel and less. Oil with less than one percent sulfur sells proportionately higher—the latest quotation I have is $3.60 a barrel in cargo lots at New York.

A great deal has been written about the outlook for importing liquefied natural gas, and applications have recently been filed with the Federal Power Commission for the importation of one billion cubic feet a day to the East Coast from Algeria, and an additional 425 million cubic feet a day from Venezuela.

Deliveries would begin some time in the 1974–1975 period. This comes to approximately 520 billion cubic feet a year, or about as much as we imported from Canada in 1967.

Negotiations for another two billion cubic feet a day are currently under way with other nations, so that looking ahead, a substantial part of the Northeastern region's needs for natural gas—as much as half of it—could conceivably be met by imported LGN by, say, 1977.

Thus we see the beginnings of a new East Coast dependency—this time on liquefied natural gas.

In the nature of things, most of it would come from the same disturbed part of the world that has repeatedly shown its unreliability as a source of oil.

And one can wonder if the benefits are worth the risk of interruption that would be far more difficult to cope with than would be the case of oil.

If the outlook for foreign supplies of oil and gas are doubtful and hazardous, the outlook for coal imports is nil.

The United States is the world's largest source of coal, and if we cannot supply our coal needs, it is a certainty that no other nation can, or will.

Thus, both necessity and common sense urge that we look homeward for the means to satisfy our energy needs, and the Rocky Mountain region offers a treasure trove of opportunities.

By the National Petroleum Council's report on future petroleum provinces, there are 75 billion barrels of oil in place that await discovery in this area alone.

The U.S. Geological Survey estimates that over 300 trillion cubic feet of gas remains locked in tight formations in Rocky Mountain basins, challenging our ingenuity to make it available to man's use.

Meanwhile we continue to work toward transforming the past potential of the Green River shales from dream to reality.

Department of the Interior people have been working closely with State officials of Colorado, Wyoming and Utah to insure that shale operations on Federal leases can and will be conducted with full regard to the necessary environmental considerations.

The deposits are incredibly rich. The recoverable shale oil under one 5,120-acre tract I recall is estimated to exceed two billion barrels, comparable in oil content to the Wilmington field in California.

All told, we conservatively estimate that there are at least 480 billion barrels of oil in Federally-owned shale beds at least 10 feet thick and yielding over 25 gallons per ton.

Another 900 billion barrels in shales 15 feet thick yielding between 15 and 25 gallons per ton are found in the same region.

Although the total resources are huge, it is obvious that not all the area will be mined.

Therefore, the total overall recovery will probably be around 50 percent.

Rivaling the oil shales as a source of hydrocarbons are the immense deposits of Western coal, virtually all of it low in sulfur, and much of it occurring in seams so thick as to make an Eastern coal man gape in wonderment.

I hope you will permit a brief commercial while I beat the tub for the 350 billion tons of lignite occurring in my own state of North Dakota.

A pilot plant which will convert 50 tons of lignite a day to pipeline quality gas is scheduled to go into operation in Rapid City, South Dakota, some time toward the middle of next year. If it is successful, as we expect it to be, the way will be opened for commercial plants to help pick up the burden of supplying the staggering demand for gaseous fuels that future years will bring.

To complete this brief inventory of hydrocarbon resources I should mention the tar sands that are known to occur in the Rocky Mountain area, notably in Utah.

We really know so little about the occurrence of tar sands in the United States that any judgment of them must be tentative.

There is presently little interest in these sands, and even less commitment of effort toward evaluating their potential to contribute to the energy supply.

We do know that there are three large deposits in Utah, of dimensions we would be delighted to find in reservoirs of liquid petroleum. The largest of these, at Asphalt Ridge, is estimated to contain nearly a billion barrels of tar sands oil.

So there is no dearth of energy resources in the United States. They are so fast, in fact, that we could be entirely self-sufficient if we chose.

The fact that we have not chosen to do so as yet may reflect an assessment of the relative value of foreign energy sources that is no longer in tune with the realities of the present.

The time is at hand, at least for a new look at the efforts best calculated to yield a reliable and adequate flow of energy to support the nation's plans and purposes—if not, indeed, a new direction.

The CHAIRMAN. Mr. Secretary, you have made a very fine statement here and I think you have been most forthright in responding to the questions asked of you; I don't want to keep you here longer than necessary. I do want to applaud what you said with regard to the legislative situation. I am well aware that you have worked very hard with regard to your recommendations on this trade bill and that some of them, I think definitely should be enacted. What you pick up in the way of riders to what you recommend to the Congress is something no one can predict. But I, for one, am well aware of the fact that sometimes you have to get your legislation the best way you can and if this social security bill should prove to be the last revenue bill through the station, it might well be desirable to pass such of it as the Congress is willing to agree to whether that be the textile quota or the DISC part, or some other recommendations that you think desirable in connection with it.

Now, you are aware of the fact that the administration supporters of the family assistance plan have clearly reserved their right to offer that—and that is a very important piece of legislation—as an amendment on this social security bill, if that bill is not reported in its own right. You are fully aware of that, are you not?

Secretary STANS. I have read that in the paper, yes.

The CHAIRMAN. That is something that the Senate must decide, and while it is fine for you to recommend it, in the last analysis it is our decision and I applaud you for making that clear.

There is one thing that troubles me about this DISC proposal, Mr. Secretary. It seems to me that best thing that could happen for this country is for those who have the responsibility for our trade and financial situation is this world, to join together in making clear to our friends abroad that we are going to have to take whatever action is necessary to protect the fiscal and monetary integrity of this Nation in its trading position with the entire world. And, this being the largest and generally freest market in the world toward which anyone can ship his commodities, my guess is that if the leadership of this country just gets its back up and says "Here is what we are going to have to do to correct our position," while some of our trading partners may protest they should realize that we are doing about the same kind of thing they would do under the same circumstances and they will go along with us when we make it clear that we must do certain things to protect our position. And the problem I find in my mind is whether we are just postponing that fateful day by just voting for this DISC thing rather than just simply insisting that we stand pat and live with an intolerable situation until those in the executive branch are ready to make that decision that we just can't continue to live under a set of rules that we have arranged for the benefit of the other fellow when it is penalizing us to the extent that we just can't forever keep it up. What is your reaction to that?

Secretary STANS. Well, my reaction, Senator, from what I have learned in the 2 years I have been in my present post, is that it takes a long time to work out these international relationships such as are involved in trade matters, such as are involved in the question of tax incentives in the various countries; consequently, even if we determined in the administration immediately to take the action you suggest, I wouldn't see any hope of resolving this discussion with the other countries within a period of years. That being the case, I think we need something to help American business to compete and something to help American business so that it is induced to keep its plants in this country, and the DISC fulfills that function. If, as, and when we and the Congress can agree on alternative tax measures to help our competitive position or induce the GATT or take other steps, we can then review the question of whether the DISC is further than we want to go in combination with other measures, or whether it should continue, but I do think we need something now and we need something quickly to stop the outflow of American plants into other countries and this will help. It wouldn't stop it but it will help.

The CHAIRMAN. Well, Mr. Secretary, we have been concerned about these problems for many years. Even in 1962, this committee wrote section 252 in the act to provide our negotiators with leverage to deal with foreign nontariff barriers and specifically with the European variable levy system, and it proved fruitless. They didn't heed the direction from Congress. Now, one further question, Mr. Secretary. I am not sure that, I do not know, whether this has come to your attention, but our sulfur producers in Louisiana are in trouble.

I introduced legislation, and it might be that they do not require legislation to help them, but their position is that we produce sulfur as a primary product, and they are competing with our Canadian friends whose sulfur is a byproduct of gas which they are going to merchandise and sell at any price; much of it in this country. As a result of these sales at depressed prices we have had a number of our sulfur mines closed, some in Louisiana.

Can you offer me any suggestion as to what we might do about that situation? We certainly cannot compete with their prices because they could sell it for any fraction of the price that it costs us to produce it.

Secretary STANS. Senator, it is a subject with which I am not very familiar. I would suggest, as a first step, that we meet with the sulfur producers and learn more about the problem. I was not aware of the fact that a significant problem existed.

The CHAIRMAN. Well, I will put my statements in the record of the hearings here and just suggest to you that you have your people take a look at it.

(The statements of Senator Long referred to follow. Hearing continues on page 258.)

[From the Congressional Record, June 17, 1970]

DOMESTIC SULFUR SITUATION

Mr. LONG. Mr. President, for some time now I have been troubled by the succession of signs that one of America's most basic, vital industries—sulfur mining—is under severe economic strain. Since early 1968, when sulfur began to be in oversupply, there has been a drastic decline in sulfur prices and a consequent reduction in the earnings of sulfur producers. At least six sulfur mines have had to shut down, and many sulfur workers have lost their jobs. Exploration for new reserves of sulfur has come to a virtual halt.

The most recent sign for concern is the news that Freeport Sulphur Co., the world's largest sulfur producer, has had to lay off some 11 percent of its employees in Louisiana since the first of the year and that further reductions may ultimately become necessary.

What is the cause of the problem? The Louisiana sulfur industry's difficulties appear to stem largely from the pricing policies of western Canadian producers who are forcing into U.S. markets already fully supplied a large increase in sulfur recovered from sour natural gas. I am told that the unremitting pressure from imports of low-priced Canadian sulfur has caused substantial reductions in Louisiana sulfur productions and prices. Canadian sulfur, unlike Louisiana sulfur, is not a primary product but a byproduct or coproduct. It is obtained from the hydrogen sulphide which must be removed from the gas in order to make the gas salable. Consequently, Canadian sulfur production is unrelated to market requirements and it is priced without regard to cost. One of our Louisiana sulfur companies reports that in the large Midwestern market, for example, offers of Canadian sulfur at below prevailing prices have been responsible since June 1968 for 10 successive price cuts.

Mr. President, sulfur is essential to the well-being of the national economy. All farms and all industries rely upon the availability of sulfur in adequate supply. But the assurance of future supply depends upon producers being able to continue to conduct increasingly expensive, increasingly difficult explorations for and development of new sources. Current conditions seriously impair producers in this respect.

There may well be actions our Government should be taking to safeguard the domestic sulfur industry. I intend to give the entire matter immediate and serious attention, and I invite other Senators who may be as concerned about this as I am to join me.

A considerable amount of useful information is contained in two items which I ask unanimous consent to have printed in the RECORD at this point. They are an article, entitled "Freeport Cuts Working Force," published in the Times Picayune of May 26, and an in-depth analysis prepared by Freeport Sulphur Co. for its stockholders earlier this year, entitled "The Competitive Situation in Sulphur."

There being no objection, the material was ordered to be printed in the RECORD, as follows:

[From the New Orleans Times-Picayune, May 26, 1970]

FREEPORT CUTS WORKING FORCE—11 PERCENT LAYOFF BLAMED ON IMPORT PRESSURE

Freeport Sulphur Company announced Monday it has had to lay off 11 per cent of its employes in Louisiana sulphur operations because of "unremitting pressure from imports of low-priced Canadian sulphur."

The company said further cutbacks in its work force may be ultimately necessary.

Cutbacks affect sulphur mining operations in and off the Louisiana coast, the research and development laboratory Belle Chasse and the company's Southern operations offices in New Orleans.

In a statement to the press, Freeport reported a 56 per cent decline in earnings in the first quarter of 1970 compared to the corresponding period in 1969. In April the directors cut the quarterly dividend to stockholders in half.

The company said employment in Freeport's sulphur operations is expected to decline from the January level of 1,340 to 1,190 in June.

Z. W. Bartlett, vice-president, Southern operations said, 'Because of concern for the well-being of Freeport employes, we have resisted until now the inevitable result of the continuing, unremitting pressure from imports of low-priced Canadian sulphur."

Bartlett attributed Louisiana sulphur industry's problems to the pricing policies of western Canadian producers, which, he said, are forcing a large increase in by-product or co-product sulphur recovered from sour natural gas into already fully supplied markets.

He said since the Canadian sulphur must be removed from the gas in order to make the gas salable, its output bears no relation to market requirements and is priced without regard to cost.

Bartlett said offers of Canadian sulphur at below prevailing prices have been responsible for 10 successive price cuts in the large midwestern U.S. market since June 1968.

THE COMPETITIVE SITUATION IN SULPHUR

(Sulphur is now in oversupply. Prices have fallen. Mines have been shut down. Exploration is being curtailed.)

The sulphur problem today is similar to that of the late 1950's and early 1960's. At that time the development of new sulphur mines in Mexico, accompanied by the recovery of sulphur from sour natural gas in France and Canada, created substantial oversupply. Producer stockpiles of mined sulphur mounted, and inventories reached a peak of nearly a year's supply. Prices everywhere were driven down by over-eager sellers seeking to enlarge their market positions and by over-zealous buyers seeking short-term bargains. In the United States, where virtually all of the production was brimstone (elemental sulphur) mined by the Frasch process on the Gulf Coast, prices f.o.b. Gulf ports declined by about one third over a period of eight years.

The price cutting in the late 1950's and early 1960's had many harmful effects. Unless the output of a sulphur mine can be sold at a profit, the mine cannot long be operated even though it may still contain sulphur. As a consequence of the low prices, a number of mines closed down, leaving sulphur in the ground all or most of which would never be recovered, or if recovered at all only at exceptionally high cost. Of still greater importance, exploration for new reserves was curtailed or terminated. Even when success attends exploration efforts and sulphur is discovered in commercial quantities, it takes years to bring a deposit into production. In view of the continuing growth in the demand, a sulphur shortage was clearly in the making but prices were too low to encourage either new exploration or new production.

The shortage came, and for five successive years—1963 through 1967—demand exceeded production. What had happened was that the consumption of brimstone, particularly by the expanding fertilizer industry, had grown at an above-average rate of 10 percent per year for the years 1962 through 1966, and had caught up with and passed productive capacity, stalled by the unattractive prices.

Only the aboveground stockpiles of mined sulphur which had been maintained by large producers prevented a disastrous curtailment of agriculture and industry. The stockpiles were drawn upon heavily, and eventually fell to 12 weeks' supply (which, considering the amount of sulphur in transit and the necessity for maintaining sizeable quantities of sulphur as "bin-bottoms"—foundations for the stockpiles—was probably no more than six to eight weeks' supply of sulphur available for shipment to consumers). The stockpiles of sulphur built during the period of oversupply, together with large increases in current production which Freeport and some other producers were able to achieve, enabled most of the requirements to be met. Even so, sulphur had to be allocated and plans for new plants which would use sulphur in the processes had to be shelved.

Thus, the unremitting pressure for ever-lower prices proved to be very harmful to producers and consumers alike. About one half of all the sulphur consumed goes into the manufacture of fertilizer so necessary for production of food for the world's increasing population. The remaining half is required by industry; sulphur is consumed directly or indirectly in the making of almost everything we eat, wear or use. It is no overstatement to say that a major sulphur shortage would seriously threaten the entire economy of the world.

Freeport took the position, both in published statements and in discussions in Washington and elsewhere, that the cure for the shortage lay in higher prices. Higher prices, we said, would stimulate exploration for and development of new sources of supply, which in turn would bring supply and demand back into balance. Eventually prices did rise. The price of Gulf Coast sulphur increased to its pre-shortage level and then rose by another two fifths. Prices of sulphur from other areas rose very much more.

Exploration was resumed on a large scale by sulphur producers, consumers and others and many new projects to add to the supply were initiated. In 1968, sulphur production exceeded demand for the first time in five years. In 1969, the excess became much larger.

Today, notwithstanding the fact that production exceeds consumption, production of brimstone continues to rise. The main source of the additional sulphur is the sour natural gas produced in Alberta in western Canada, principally by oil and gas companies. There, brimstone is recovered as a by-product (or coproduct) in the production of the gas. The hydrogen sulphide in the gas must be removed to make the gas salable. The cost of recovering the brimstone from this hydrogen sulphide may be considered by producers either as a cost of producing the gas or as a cost of producing the brimstone. A recovered brimstone producer may therefore ascribe to his brimstone any cost he wishes—or indeed none at all—because, the argument goes, his brimstone must be produced in order to sell the gas and therefore regardless of market considerations.

From the start of 1968—the first recent year of oversupply—to the end of 1969, the daily production rate of recovered brimstone in Alberta increased by more than 60 percent. This additional production of recovered brimstone, large as it is, had an impact on sulphur prices out of proportion to the quantity involved. It nevertheless has occurred because some producers (and their brokers), in their efforts to force ever-increasing quantities of their sulphur into markets already fully supplied, have progressively initiated reductions in prices. Alberta brimstone is now being offered in the upper Midwest of the United States and elsewhere at prices that, on the basis of net realization in Alberta, are approximately one third of the average obtained from all sales of Alberta sulphur at the start of 1969! *It is believed that much of the Alberta sulphur is now being sold below its actual cost determined in accordance with good accounting practice and on the basis of any reasonable distribution of total costs between gas and sulphur.*

United States brimstone producers have had no choice but to meet the insistently lower competitive sulphur prices. During 1969 and in early 1970 price "allowances" or discounts became widespread and increasingly large.

Much harm is being done by the excessively low prices at which sulphur is now being dumped into world markets. Already mines have shut down; others are believed near termination. Exploration for new supplies is being curtailed. We do not think these results are in the best interest of anyone in the industry or of the public generally.

This pricing problem in the sulphur industry has been caused by factors similar to those which existed in the potash industry. Well before oversupply came about in sulphur, the development of large new potash mines in Saskatchewan in western Canada created substantial oversupply in potash. As this new supply forced its way—on a price basis—into the United States, the domestic potash industry became increasingly imperiled; some mines shut down, and unemployment followed. Bills were introduced in Congress for the imposition of import quotas and duties on imports of potash. In 1969 the U.S. Tariff Commission ruled that Canadian potash which was being dumped into this country was injuring the domestic potash industry, and the U.S. Treasury Department commenced assessing damages against the Canadian sellers. In an effort to remedy this situation, the provincial government of Saskatchewan recently adopted a production control program which has resulted in higher prices and export quantities much more in line with actual market requirements.

Whether a somewhat similar program—or some other remedy—for the Canadian sulphur problem will be put forth remains to be seen. There are good reasons for a program similar to that adopted for potash. The very low prices at which Canadian brimstone is being forced into the markets are adversely affecting the Province of Alberta and also the Canadian economy. The prices are resulting in lower royalties to the Province and lower tax revenue to the Dominion. A program for sulphur would need to control only the *export* of sulphur and not its *production;* unlike potash, sulphur can be stored easily and for long periods above ground without being under cover, with no deterioration and at almost no cost.

As the demand increases—and it will surely do so—the stockpiles of sulphur, together with then-current production would be shipped to fill the requirements of industry and agriculture. This course of action is the one followed by individual sulphur producers during the period of oversupply in the late 1950's and early 1960's. *Had Freeport and other sulphur producers not stockpiled sulphur during those "years of abundance," the shortage during the five "lean years"—1963 through 1967—would had severe consequences for sulphur consumers and for the economy of this country and the rest of the Free World.*

From 1950 through 1967 brimstone consumption in the Free World grew at an average annual rate of about 5½ percent per year due in good part to the large growth in the fertilizer industry. In 1968 the rate of growth in brimstone consumption dropped sharply to about 1½ percent; in 1969 it rose to about 3 percent, which, of course, was still far below the historical growth rate.

The decline in the growth of brimstone consumption in 1968 and 1969 was caused mainly by the slowdown in the *manufacture of new supplies of fertilizer in the United States.* This slowdown occurred because of the very high level of inventories of finished fertilizer at the end of 1967. To compound the problem, bad weather in the United States retarded application of fertilizer to the soil, and in addition the U.S. Government cut back its AID program for shipment of fertilizer overseas. Significantly, however, *consumption* of phosphate fertilizer (the largest brimstone-consuming market) continued to grow during each of the two years by more than 3 percent in the United States, and by more than 5 percent in the entire Free World. It is believed that the excessive inventories of finished fertilizer have now been reduced to normal or near-normal levels, and that production of new fertilizer (and therefore consumption of sulphur) should again approach their historical growth rates.

The food needs of the expanding world population must inevitably bring great growth in fertilizer use and therefore in the use of sulphur. The Food and Agriculture Organization of the United Nations, in a recently announced plan for world agricultural development, estimated that use of fertilizer in all forms in developing countries would double in 1975 over 1968-69 and would more than quadruple by 1985. In another recent study, the Sulphur Institute projected an average annual increase of 6 percent in sulphur requirements for phosphate fertilizers between 1970 and 1975 for the Free World. In the non-fertilizer segment of the market, sulphur consumption tends to follow industrial output and is therefore also expected to increase.

Sulphur demand thus will in time equal—and probably again exceed—the supply.

[From the Congressional Record, July 22, 1970]

LIMITATIONS ON SULFUR IMPORTS

Mr. LONG. Mr. President, on July 10, 1970, I introduced a bill (S. 4075) to provide for limitations on the importation of sulfur, which was referred to the Committee on Finance. Since that time, the junior Senator from Texas (Mr. Tower) has expressed his desire to be a cosponsor of that bill. I, therefore, ask unanimous consent that the name of the Senator from Texas be added as a cosponsor of S. 4075.

The PRESIDING OFFICER (Mr. Schweiker). Without objection, it is so ordered.

Mr. LONG. On June 17, I called the attention of the Senate to the critical situation in which the U.S. sulfur industry has been put, with loss of sales, mine shutdowns, unemployment, and the virtual cessation of exploration for new sulfur reserves. The legislation I have introduced is based upon clear and compelling evidence that, unless corrective steps are taken, events are leading toward the closing of other U.S. sulfur mines and the drying up of the domestic sources of sulfur upon which the Nation now relies.

Mr. President, before discussing the way in which my bill proposes to alleviate this critical situation, let me point out how important sulfur is to our economy. It is a vital raw material for all segments of industry and agriculture. In elemental form or as sulfuric acid, it enters into the production or processing of fertilizers, chemicals, titanium and other pigments, pulp and paper, rayon and film, iron and steel, dyestuffs, vulcanized rubbers, insecticides, fungicides, and many other products. Our country consumes annually more than 100 pounds of sulfur for each man, woman, and child. We use twice as much sulfur as aluminum, five times as much as copper, eight times as much as lead or zinc, and 70 times as much as nickel.

Although vital to our economy, sulfur represents a minute part of the cost of most of the final products it helps to make. For example, a $1 per-ton reduction in the price of sulfur would reduce the cost of a ton of newsprint by only 2 cents, the cost of a ton of galvanized steel by less than a cent, the cost of four passenger tires by only a half cent and the cost of a gallon of exterior paint by only one-tenth of a cent. This same $1 per-ton reduction in the price of sulfur would reduce the price of diammonium phosphate, a popular fertilizer which retails for $80 to $85 per ton, by only 39 cents.

Consequently, changes in sulfur prices do not affect the level of sulfur consumption. Nor do they affect the prices of the end products paid by the consumer. He neither gains nor loses from reductions or increases in sulfur prices. As a matter of fact, although sulfur prices have been declining, fertilizer producers recently issued new price lists increasing the prices of fertilizers.

However, fluctuations in the price of sulfur do have a demonstrable effect on sulfur supply. Historically, higher prices have resulted in stepped-up exploration efforts and the development of new domestic sources. Lower prices, conversely, have retarded exploration and development, and in time have caused shortages.

For a great many years, our domestic sulfur industry has taken good care of the requirements for sulfur of U.S. industry and agriculture. In World War II sulfur was one of the very few products that never had to be rationed or allocated. Our domestic mines supplied U.S. needs in full—and also a considerable part of the needs of our allies. In the Korean war, our domestic sulfur industry again supplied a considerable part of the needs of our allies, although it was necessary to allocate sulfur here at home in order to do so.

U.S. sulfur has long competed successfully against the sulfur mined in foreign countries and has done so without the help of tariffs, quotas or other government support. Now, however, it is facing a new and unfair kind of competition—competition that has nothing to do with efficiency of operation, producitivity of workers, wage rates or the other elements generally involved in foreign competition. This competition is that created by the rapidly increasing production of large quantities of sulfur derived as a byproduct from sour natural gas in Canada and being forced into United States and other markets. It is this pressure of Canadian sulfur that is creating chaos in U.S. sulfur markets and providing the U.S. sulfur industry with the most serious threat of its three-quarter century life.

Because the Canadian sulfur must be removed from the natural gas to make the gas salable, the amount produced is dictated not by the demand for sulfur but by the demand for gas. Altough sulfur recovery from sour gas is not new, never before has it occurred as a byproduct in such volume or has it been forced into markets at such diminishing prices.

From the start of 1968, the first year of the current sulfur oversupply, the daily production rate of Canadian recovered sulfur has increased by nearly 75 percent. Canadian production has tripled in the last 6 years and Canada has surpassed the United States as the world's largest exporter of sulfur.

Figures provided by the Department of Commerce show imports of Canadian sulfur in 1969 of 929,000 tons as compared to 655,000 tons in 1965. Production from the Western Canadian oil and gas fields is expected to increase from 3,700,000 tons in 1969 to 4,300,000 tons in 1970. At the present rate, Canadian shipments of sulfur into the United States this year will exceed one million tons.

The large increase in the production of Canadian sulfur, virtually all of which is produced in the province of Alberta, has had an impact on sulfur prices far out of proportion to the quantity involved. Canadian producers and their brokers—in an effort to sell ever-increasing amounts of sulfur in markets, which are already fully supplied—have steadily cut prices. According to the monthly reports of the Alberta Oil and Gas Conservation Board, the average net price f.o.b. plant for sulfur produced in Alberta has declined from $33.73 per ton—Canadian dollars—in January of last year to $9.33 per ton in March of this year. This is a drop of nearly 75 percent in only 14 months.

The record of what has happened to sulfur prices in the U.S. Midwest market illustrates the effect of this price cutting. According to data provided to me by a U.S. producer, there have been 10 successive price reductions—all instigated by Canadian producers—in this market since June 1968. U.S. sulfur producers, in order to hold what business they could, have had to meet these insistently lower prices of Canadian sulfur.

I understand that the price cutting is continuing and, with the anticipated increase in production of Canadian sulfur, the effects can be calamitous in U.S. sulfur markets.

Already, six sulfur mines in Louisiana and Texas have shut down, with a loss of productive capacity of a million and a quarter tons a year. If the plummeting price situation could be corrected and demand improved, three of these mines might be reactivated, In all probability, the others will never reopen, and we will permanently lose the reserves of sulfur in the ground at those locations. In addition, there are believed to be at least six other U.S. sulfur mines which are operating marginally at existing price levels and which may be required to shut down. Most of the mines still operating have had to cut back. More than 1,000 jobs have already been lost in the U.S. sulfur industry and the jobs of thousands of other sulfur mineworkers are in jeopardy.

In addition, our previously favorable balance-of-payments situation with respect to sulfur has been reversed. The United States in 1969 changed from a net exporting nation to a net importer of sulfur.

Even more important, in the long view, is the curtailment of exploration for new reserves of sulfur in the United States. This curtailment is seriously endangering the national interest with respect to future supplies of a vital raw material. The U.S. Government, which does not stockpile sulfur but depends upon domestic producers' production and inventories, has long recognized the essential nature of sulfur to the national defense and economic well-being.

Mr. President, it seems to me that what we have here is an important domestic industry being threatened with being put out of business by the unfair competition of a foreign byproduct being offered at extremely low prices without regard to production cost or market demand. This domestic sulfur mining industry provides employment and tax revenue to my State, Louisiana, and also to Texas. There is the possibility that—under proper economic conditions—sulfur deposits may be found and developed in other States. New Mexico and Mississippi for example.

In all, 25 States produce sulfur from one source or another. The industry, moreover, has nationwide significance for another reason—the paramount importance to U.S. industry and agriculture of having a large and dependable source of sulfur production within our borders. We must not let this industry be destroyed by the caprice of producers whose main concern is not sulfur but rather the products of which sulfur is a minor sideline.

I have attempted to deal with this critical problem by the introduction of S. 4075 to provide for limitations on the importation of sulfur. The limitation would be accomplished by either one of two means: First, quantitative limits on imports based on price levels and allowing for growth in domestic consumption or second, international arrangements or agreements under Presidential action.

Mr. President, I ask unanimous consent that the text of the bill (S. 4075) be printed in the RECORD at this point.

There being no objection, the bill was ordered to be printed in the RECORD, as follows:

S. 4075

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

SEC. 101. The Congress finds that increasing imports of sulfur into the already fully supplied United States markets have caused grave injury to the domestic sulfur industry and may jeopardize its very existence if permitted to continue unchecked. Such imports have caused mine closings, resulting in unemployment to large numbers of workers. It has also brought to a virtual halt exploration for, and development of, new sulfur reserves. Several sulfur mines are now operating on a marginal basis, may be required to be closed. Because sulfur is an essential item, vital to the well-being of the United States, an immediate remedy for the intolerable conditions prevailing in the sulfur industry must be provided.

SEC. 102. It is the policy and purpose of this Act to provide for the regulation of commerce in sulfur among the several States and with foreign nations so as to foster the maintenance and expansion of an economically strong sulfur industry in the United States and to avoid undue disruption of the markets for sulfur in the United States. This regulation shall be accomplished by the imposition of quantitative limitations on imports of sulfur in accordance with the provisions of section 103 of this Act, or by agreement with other governments or instrumentalities providing separately for limiting imports of sulfur from such nations or instrumentalities into the United States in accordance with the provisions of section 104 of this Act.

SEC. 103. Except as provided in section 104:

(a) The total quantity of sulfur originating in any country which may be entered, or withdrawn from warehouse, for consumption during the calendar year beginning January 1, 1971, shall be limited to the average annual quantity of sulfur originating in such country which was entered, or withdrawn from warehouse, for consumption during the three calendar years 1965–1967.

(b) Beginning with the calendar year 1972, the total quantity of sulfur originating in any country which may be entered, or withdrawn from warehouse, for consumption during that calendar year and during each succeeding calendar year shall be increased or decreased in amounts proportionate to increases or decreases in domestic consumption of sulfur, as determined in accordance with this subsection. Increases or decreases in domestic consumption of sulfur shall be determined by comparing the domestic consumption of sulfur during the preceding calendar year with the average domestic consumption thereof during the two calendar years immediately precedng such calendar year.

(c) All determinations required by this section shall be made by the Secretary of Commerce and shall be published in the Federal Register not later than December 31 of the year preceding that for which a limitation on sulfur imports is established. Determinations of consumption for a then current year may represent the Secretary's best estimate.

SEC. 104. The President is authorized to enter into international arrangements or agreements with foreign governments or instrumentalities separately regulating the quantities of all sulfur originating in such nations or instrumentalities which may be entered, or withdrawn from warehouse, for consumption. The provisions of each such arrangement or agreement entered into hereunder shall substantially carry out and implement the declared purposes and findings of this Act and assure the avoidance of undue disruption of the markets for sulfur in the United States.

The President shall make such arrangements or agreements effective by proclamation, and is authorized to issue regulations necessary to carry out the terms thereof. The total quantity of sulfur which may be entered, or withdrawn from warehouse, for consumption from any country which has entered into such an arrangement or agreement hereunder shall not be subject to the provisions of section 103 while such agreement is in force and effect.

Mr. LONG. Mr. President, this bill recognizes the grave injury that has been done to the U.S. sulfur industry by the effect of under-priced, byproduct sulfur moving into domestic markets from foreign sources. In its three-quarter century of production in this country, the U.S. sulfur mining industry has never had Government assistance in the regulation of sulfur imports. It has been able to operate productively despite a veritable jungle of restrictions which it encounters in world markets outside of North America. More than 25 countries impose tariffs on U.S. sulfur, some of which merely restrict imports, such as the proposed act would do, or are imposed as revenue-raising agents. Other foreign restrictions are so high that they constitute a complete embargo against U.S. sulfur. In addition to tariffs, foreign trade barriers encountered by U.S. sulfur include blockade by tariff, embargo on sulfur, discriminatory tariff, restrictive import licensing, and onerous deposit bond requirements. If, in the home market, U.S. sulfur companies are damaged by unfair competition to the extent that they cannot compete, we may well see the demise of the U.S. sulfur mining industry.

I have offered my bill in the hope that, given assistance, the U.S. sulfur mining industry will be able to continue to contribute to the Nation a vital raw material in a sound economic environment.

Mr. President, I suggest the absence of a quorum.

The CHAIRMAN. The impression I gain, Mr. Secretary, is that unless this Nation is to take an interest in their plight it is totally within the capacity of our Canadian friends to put our producers out of business and, of course, they are not as important to the economy, I admit, as the textile industry or the steel industry, but they are very important to Louisiana, I know and, perhaps, to Texas and some others.

Thank you very much.

Senator CURTIS. Mr. Chairman, I was detained. I will not take any time to ask questions, but I will read the Secretary's statement.

Senator HANSEN. Mr. Chairman, may I ask unanimous consent that there be included in the record following my questions of the Secretary, the remarks of Dr. Wilson M. Laird to which I referred.

The CHAIRMAN. Yes, sir.*

Senator FULBRIGHT. Mr. Chairman, I want to say that I agree with you about taking proper steps to protect the integrity of our economy. The question is whether this is a proper step and a proper time. I do not think that we can assume that it is the best way to protect our economy.

I wanted to ask the Secretary his views—he has mentioned two or three times that we should stop the outflow of U.S. companies to foreign countries.

As a matter of fact, our Government, this administration and prior ones, together with the Congress, are giving positive, direct incentives for American capital to go abroad. You do it through your guarantee program in the foreign trade bill; you give aid, and you have also, and continue to give, and we have in the past for many years, given direct subsidies for the building and assistance and project loans and grants to many of the same countries which are now competing with us.

On the one hand, we complain about what they are doing and, on the other hand, we give positive assistance for them to do it.

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*See page 245.

Senator FANNIN. Would the Senator yield? I think there is a great difference in whether or not we are giving incentives to our companies to go abroad and produce for sales for foreign countries. But here I am talking about a company going abroad and shipping back to the United States and taking away American jobs. There is a great difference because I can give you many illustrations where, for instance, one of the electronic firms in our State that has a plant in France, they supply many of the materials from the Arizona plant to the French plant, and it does not come back to the United States.

We have others that are going into, for instance, Taiwan or Korea, that are shipping directly back to the United States, and this is where we lose the American jobs.

Senator FULBRIGHT. There are no restrictions. These plants do whatever is most beneficial to them. When they make a loan or when they give a guarantee to an American company to go and invest abroad, there is no restriction about their sending it back here.

On many of the guarantees we are going to lose a lot of money, I expect, I do not know, in South America, due to the threatened expropriation, much of that being under American Government guarantees.

I sympathize with the Secretary's position that we should not do this. I voted against that bill. This is one of the reasons. But there are many things that contribute here to this balance of payments which he is concerned about, besides this trade.

Actually, didn't you testify that there is a favorable surplus in balance of trade? The deficit is in the balance of payments; is it not? Isn't that right?

Secretary STANS. Well, yes. But I have to qualify that. It has been pointed out here by the chairman and others that our trade statistics do not include all of the elements that might be included.

For example, we include as a part of our favorable balance of trade things that, in effect, we give away, and it can very well be argued that our commercial balance is, therefore, something different.

Senator FULBRIGHT. Well, then, it is very bad bookkeeping if that is what you do because you give us what the actual commercial balance is.

Secretary STANS. We are in the process, Senator, of developing a formula whereby we can report the figures on two different methods from here on out.

Senator FULBRIGHT. You mean you do not know, the Secretary of Commerce does not know, what our balance of trade is, I mean real balance of trade, commercial balance of trade?

Secretary STANS. Yes, of course.

Senator FULBRIGHT. You do not know?

Secretary STANS. Yes, we do.

Senator FULBRIGHT. What is it?

Secretary STANS. Well, if you take the adjustments for two factors, one, to exclude from our exports the things that, in effect, are like our aid program——

Senator FULBRIGHT. I think we ought to clear it up.

Secretary STANS. And if we add to the costs of our imports the ocean freight and insurance and other costs to bring them into the United States, then what appeared to be a surplus of $1 billion last year becomes a deficit of $3 billion.

Senator FULBRIGHT. In trade?

Secretary STANS. In trade.

Senator FULBRIGHT. What was the balance-of-payments deficit?

Secretary STANS. The balance of payments deficit last year was $7 billion, as we indicated in the earlier testimony, and about $2.5 billion of that was the unwinding of transactions in 1968, so that the estimated real deficit in the balance of payments last year was $4.5 billion.

Senator FULBRIGHT. Estimated real balance-of——

Secretary STANS. Payments deficit.

Senator FULBRIGHT. Well now, did you put in the record these other activities which really are not dealt with here at all, and they are activities which the Government does not discourage, and could discourage. I have already mentioned the direct incentive, direct subsidy, in an American company to go abroad and build a plant, which we have done through guarantees.

What other reason is there to give guarantees?

Secretary STANS. Of course, we should take into account, Senator, the fact that there is also a program of restrictions on overseas direct investments right now to help the balance of payments which was instituted at the beginning of 1968, and is still in effect, with some modifications, and this has induced American companies to do a lot of their financing of foreign plants in foreign countries.

Senator FULBRIGHT. The interest rate here makes it advisable to do that if they can find the money, does it not?

Secretary STANS. If they can find the money.

But in any event they cannot—we do not permit them to send the money overseas for investment beyond certain limits.

Senator FULBRIGHT. But there are many exceptions. You permit agencies such as the Inter-American Bank to borrow money in this country; do you not?

Secretary STANS. Yes.

Senator FULBRIGHT. And they do it.

Secretary STANS. Yes.

Senator FULBRIGHT. The International Bank does—to be used abroad. There are many leaks in the system which encourage the very thing you point out, and properly so, as being something contributing to our difficulties.

It seems to me, to be consistent, that you ought to recommend at least that we stop those activities which, I would agree with, we should stop. But there are many other things.

Take tourism. That is one of the biggest contributors to our difference in the balance of payments.

Secretary STANS. Yes; it runs a deficit.

Senator FULBRIGHT. How much?

Secretary STANS. $2 billion out of the year.

Senator FULBRIGHT. That is about half.

Secretary STANS. No; it has been running $2 billion for the last 2 or 3 years at least.

Senator FULBRIGHT. You said a moment ago that the real deficit in the balance was $4 billion. Here is $2 billion, and that is half of it.

Secretary STANS. Taking that one subject alone.

Senator FULBRIGHT. That is what I mean. You take your expenditures for military bases abroad, not even to mention the war itself but bases, and other activities such as support of troops in Europe. Do you know what that is?

Secretary STANS. I do not have the figures before me.

Senator FULBRIGHT. It is very big; is it not?

Secretary STANS. It is fairly large; it is not the largest item.

Senator FULBRIGHT. Well, it is a very large item, if you calculate all that we have around the world, 380 bases abroad of one kind or another, military bases, from big to small, we have about 200 in Germany alone, and these all cost money. I mean with local costs, and so on, they cost a great deal of money. The war is another very large one.

But, at least, you ought to consider that this type of approach to this problem might be useful.

What bothers me is this country did have a favorable balance of trade, and we did it largely with agriculture, didn't we?

Secretary STANS. Yes; but that is some time ago. But for the last couple of years our commercial balance in agriculture has been practically nil. That is, the agricultural exports that have been paid for as against agricultural imports have been apprximately even over the last 2 years.

Senator ANDERSON (presiding). Senator Fulbright, we will have to terminate this testimony.

The Secretary of State is here.

Senator FULBRIGHT. Well, Mr. Chairman, it seems a great pity that if you intend to bring this bill out, and you will not permit the Secretary of Commerce, who is a most important part of the administration, to put in data concerning what we are dealing with here.

It seems to me that this bill has a good purpose but the remedy that they are proposing to use is a very inappropriate one. There are many other ways, far better than DISC and other things, that would benefit the country and not endanger the exports of soybeans and cotton and rice which my State has a deep interest. We do not have many electronic industries, but we are interested in continuing to sell soybeans, and we sell them for money. I mean, when the Japanese buy soybeans we do not give them to them; isn't that correct, Mr. Secretary? Don't they pay for them?

Secretary STANS. They pay for them.

Senator FULBRIGHT. They pay for the soybeans and pay for the cotton, and when we sell cotton to Canada they pay for it?

Secretary STANS. That is correct.

Senator FULBRIGHT. While we do give away a good deal of rice, nevertheless, I was surprised that you would say there is not a favorable balance in agriculture any more. It has gone worse than I had thought.

Secretary STANS. Senator, I would debate very strongly the question of whether there is anything in the trade bill, as we have proposed it, that would cause us to lose any sales of soybeans or other agricultural commodities.

Senator FULBRIGHT. You do not think there would be any retaliation by other countries if we passed the bill as proposed?

Secretary STANS. If we passed the bill as proposed by the Administration, I do not believe there would be any retaliation from any other country; that is correct.

Senator FULBRIGHT. Well then, that brings me back to an earlier point. Are you going to veto it if it is not the Administration's bill but the House bill? I agree that the Administration's bill is the better bill.

Senator ANDERSON. I think we have to terminate questions.

Senator FULBRIGHT. All right, Mr. Chairman.

I have never seen a bill of this consequence rushed through in 2 days. Usually, we take weeks.

Senator ANDERSON. Thank you very much. We appreciate your help to us.

Secretary STANS. Thank you.

Senator ANDERSON. We are happy to see you Senator Thurmond.

STATEMENT OF HON. STROM THURMOND, A U.S. SENATOR FROM THE STATE OF SOUTH CAROLINA

Senator THURMOND. Mr. Chairman, and distinguished members of the Finance Committee, my statement is a little less than 10 minutes, after which I shall be pleased to respond to any questions.

I want to express my appreciation for this opportunity to testify before you today in support of the textile industry and its employees. The topic about which I shall testify is of utmost importance to millions of American working people. Since I have already contacted all of you about this matter and discussed it at length with most of the members of this committee, I shall not take up an undue amount of the committee's time. I shall, however, attempt to convince you, in a succinct manner, of the great need for favorable action on the Trade bill.

Before I begin, Mr. Chairman, I would like to call the committee's attention to a very fine article which appeared in the October 7, 1970, edition of The Times, published in London, England. This article points out that most foreign countries feel that the United States is completely justified in enacting protective legislation. I recommend this article to each of you and request that it be included in the transcript at the conclusion of my testimony.

Senator ANDERSON. Without objection, that will be done.

(The article referred to follows:)

[From the The Times, London, England, October 7, 1970]

PROTECTIONISM: FACING FACTS

Today's Board of Trade Journal opens with a helpful summary of the implications of the trade legislation which recently emerged from the Ways and Means Committee of the United States House of Representatives. Official sources have been quick to emphasize the threat which it poses to British exports to the United States. They are, however, incapable of saying whether the prospective loss of exports would be a small or indeed a negligible proportion of the £100-£200m. of exports potentially affected.

The same sources are conspicuously willing to see it suggested that Whitehall has countermeasures up its sleeve with which to retaliate if the Ways and Means Committee bill becomes law. At the same time, the Confederation of British Industry's President, Mr. John Partridge, told the British-American Chamber of Commerce in New York yesterday that "the pressures to introduce protectionist legislation in the United States and the failure so far to abolish the American Selling Price have raised serious doubts in Europe whether the political will behind the United States liberal commercial policy has been seriously impaired".

Mr. Partridge added that he was optimistic enough to believe these fears will prove wrong, arguing that "it makes no economic sense at all for the United States, which is the base of so many multinational corporations, to call a halt to the movement towards freer world trade and investment". That is true. But it makes even less sense for Europe.

As Mr. Partridge also pointed out, an enlarged E.E.C. would still have a much larger share of Gross National Product in external trade with the rest of the world than does the United States.

This is only one reason why it would be foolish for Britain and other European countries to allow an emotional resentment against the current protectionist spasm in the United States to lead them into an "eye for an eye" trade war. Europe has much more to lose not only in terms of trade volumes.

The same applies in terms of the other beneficent effects of trade with North America. Over the next 15 years it will offer the most rapidly growing market, the most technologically advanced market and the most homogeneous market. Thirdly, the United States has a much stronger case, in a rhetorical showdown, against Japanese quantitative restrictions on manufactured imports and against the Common Market's Common Agricultural Policy than anyone has against the present United States trade bill.

Fourthly, it has to be understood that Washington is not the seat of an all-powerful sovereign executive, as in most European capitals. It is a political forum in which multiple political forces are resolved by compromise and horse-deals. The impact of transatlantic protests on the parallelogram of forces in Washington is less than that of the human voice on the course of the heavenly bodies.

Fifthly, it does lie within the competence of overseas Governments to correct the root cause of protectionist sentiment in the United States. This is partly a matter of liberalising the Common Market's agricultural policy and Japanese imports. According to Mr. Partridge, who apparently believes that the aim of the C.A.P. is "a smaller, more efficient European agriculture which will be able to compete in the world without costly support," this liberalisation will be forcefully accelerated by British membership of the E.E.C. But, whatever the farmers and the politicians of the present Six might make of that revisionist interpretation, it is certainly open to European and Japanese authorities to adopt realistic exchange rates against the dollar through the mechanism of more flexible adjustments.

United States industries would then be able to compete on equal terms with foreign imports without appealing to Washington for protection. But until Europe and Japan show themselves willing to act on exchange rate policy on Japanese import quotas and on agricultural trade with Europe, the United States Congress is going to look with a jaundiced eye on shrill threats from junior trading partners to immolate themselves unless the United States forbears from its marginally deplorable trade bill.

Senator THURMOND. Mr. Chairman, imports of cheap foreign goods from Asian countries are threatening a basic national resource. Throughout our history, the textile and apparel industries have been a major source of American jobs, providing this country with a high rate of employment. Today they employ one out of every eight manufacturing workers, for a total of 2.5 million people.

Because of the tremendous increase in foreign imports, which have more than doubled since 1965, these jobs are placed in serious jeopardy. In recent years, over 300,000 such jobs have been displaced, 87,000 of these in the past year alone. Each day this number increases, as more textile-apparel workers are thrown out of work. I cannot emphasize enough the fact that the situation is critical. We must have this legislation to protect the industry and its employees.

The textile, apparel, or footwear industries have plants in all of our 50 States, and are important to large and small communities alike. In South Carolina, for example, almost 75 percent of our manufacturing employees are in textiles or apparel. In New York, these two industries provide over 18 percent of all manufacturing jobs. In hundreds of small towns and villages throughout the Nation, textile and apparel plants are the only employers of significant numbers of people. As a result, these towns and villages are largely dependent on these plants' payrolls for their survival.

If a company is forced to reduce its work force, or worse, to close its doors, the community suffers from a crippling catastrophe. If one plant with several hundred workers reduces its work force, such an action in towns like Graniteville, S.C., or Biddeford, Maine, can play havoc, affecting the livelihood of hundreds of people in retailing, service organizations, banks, and others.

The survival of the textile-apparel industry is important to the growth of this country, because it provides numerous job opportunities for women, minorities, and semiskilled workers. I think that it is particularly important to note that minority employment in the textile industry has tripled during the last 10 years. The textile industry employs a larger percent—I repeat, a larger percent—of minorities than any other major industry.

On September 29, 1970, a fact sheet on textiles which I compiled was delivered to all members of this committee. While I shall not reiterate the revealing statistical data which was contained in this fact sheet, I ask that it be included in the transcript.

Senator ANDERSON. Without objection, that will be done.

(The fact sheet referred to follows:)

FACT SHEET

1. IMPORTANCE OF DOMESTIC TEXTILE-APPAREL INDUSTRY TO UNITED STATES

(A) Textile and apparel industry offer employment in all of 50 states, directly employing 2.5 million people with an annual payroll of $10 billion. It indirectly employs another 3 million workers.

(B) One out of every nine U.S. manufacturing jobs is in textiles or apparel.

(C) Textile-apparel industry ranks as the nation's largest rural manufacturing employer.

(D) Textile-apparel industry is largest employer in New York City, providing jobs for over 224,000 workers.

(E) One out of every four jobs in Appalachia is in textiles, apparel or footwear.

(F) Textile industry greatly assists in halting rural-to-urban movement.

(G) Textile industry opens new opportunities for minorities, employing a larger percent of minorities than any other major industry.

2. TREMENDOUS INCREASE OF IMPORTATION OF FOREIGN GOODS

(A) Overall importation of yarn, fabrics, and apparel articles of cotton, wool and man-made fibers have increased from 976 million yards in 1959 to an all time high of 4 billion yards in 1970.

(B) Man-made fiber imports have increased 1,080 percent in last ten years.

(C) One out of every four yards of wool products currently sold in U.S. is of foreign origin.

(D) Dollar value of textile-apparel imports rose from $744 million in 1959 to $2.1 billion in 1969.

3. EXTREME ADVERSE EFFECT OF EXCESSIVE FOREIGN IMPORTS

(A) Over 65,000 textile-apparel workers lost jobs since January 1969.

(B) 250,000 new jobs which would normally have been created were abandoned.

(C) Last year alone 27 plants in United States were shut down completely.

(D) United States now has textile deficit of staggering $1.3 billion.

(E) Textile stocks dropped 39 percent, compared to Dow-Jones average drop of 15%.

4. ADVERSE EFFECT ON OTHER BUSINESSES

(A) Textile-apparel industry buys annually:
1. $4 million worth of fibers, including all domestically produced wool and two-thirds of output from 300,000 cotton farms.
2. $600 million worth of chemicals and dyestuffs.
3. $420 million worth of power and fuel.
4. $240 million worth of packaging products.
5. $100 million worth of trucking services.
(B) Textile-apparel industry guarantees more than $2.5 billion in federal, state and local government tax revenues.

NOTE.—The foreign import legislation seeks only reasonable restraints on textile, apparel and footwear imports so that foreign producers and the domestic industries alike may have equitable access to the United States market.

The bill provides a framework for a long-range solution of the year's-old import problem of the textile, apparel and footwear industries, as well as the deteriorating United States balance of trade. By leading to more evenly distributed international commerce, its effects would accrue to the long-term best interests of all nations.

Senator THURMOND. In my judgment, these data conclusively demonstrate the great need for this legislation.

The trade bill is aimed at no particular nation. It does not require that imports be shut off or that fixed limits be imposed. To the contrary, it encourages negotiated agreements. Only those countries which refuse to negotiate agreements will be subject to specific import limitations on their shipments to this country of textile-apparel articles and footwear.

These limitations would be set during 1971 to equal the average amount of imports to enter the United States in 1967, 1968, and 1969; after 1971, the permissible level of imports can be increased by up to 5 percent over the preceding year's level. The President has authority to suspend the quotas if imports from a given country are "not disruptive", if the supply is inadequate to meet demand at "reasonable prices", or if they are found not to be in the national interest.

Import quota limitations are nothing new and are common with all nations. The controls under this legislation would be flexible. This bill seeks only reasonable restraints on textile, apparel, and footwear imports, so that foreign producers and the domestic industries alike may have equitable access to the U.S. market.

Finally, I would like to emphasize that legislation is the only practical solution to this serious problem. Exhaustive studies conducted by the Department of Commerce, the American Textile Manufacturers' Institute, and myself, conclusively show that the President has no real authority under the law to make any meaningful change in the present situation by Executive order.

The President could enter into agreements with foreign countries under section 204 of the Agricultural Act, and to this end he has been striving for the past 2 years. However, as you know, it takes two parties to reach an agreement and so far Japan, South Korea, Taiwan, and Hong Kong have refused to negotiate in a reasonable manner. If only two of these countries would enter into an agreement with the United States, perhaps the President could, under section 204, then impose this agreement on the other two. However, to date, it has been impossible to reach an agreement with any of these countries, although over 100 attempts have been made by the Nixon administration.

I wish to point out that the trade bill does not preclude negotiated agreements, but to the contrary, encourages them. What it does do is to put foreign countries on notice that unless thay act reasonably, and voluntarily limit the amount of cheap goods they are pouring into the American market, a mandatory limitation will be applied.

This committee is now being asked to decide whether this country can afford to give 2.5 million jobs now held by Americans to foreign nations. Once all of the facts are studied, in my judgment, the obvious answer will be no—absolutely no!

I sincerely hope that this committee will realize the vital need for this legislation and report it out as an amendment to the Social Security bill.

Now, Mr. Chairman, that concludes my statement. I have previously furnished a fact sheet to each member of the committee, and I would urge the members to read it, particularly page 1 under "Tremendous Increase of Importation of Foreign Goods" where it is clearly demonstrated how the textile industry has been damaged.

Senator ANDERSON. Thank you very much, Senator.

Senator THURMOND. Are there any questions?

Senator ANDERSON. Thank you.

Senator CURTIS. Mr. Chairman, I believe the distinguished Senator from South Carolina has made a very good statement.

I understand the distinguished Secretary of State is in the room, so I will pass.

Senator ANDERSON. Thank you very much for your appearance here. The Secretary of State is with us now.

Mr. Secretary, we are pleased to have you before the committee. You may proceed.

STATEMENT OF HON. WILLIAM P. ROGERS, SECRETARY OF STATE

Secretary ROGERS. Mr. Chairman and members of the committee, I welcome the opportunity to discuss with your committee the pending Trade Act. My comments will be made against the background of our relations with friendly countries and in the light of our position in world affairs.

Last year the President sent to the Congress a proposed Trade Act which followed in the tradition of American trade legislation designed to increase trade and prosperity by reducing barriers and obstacles to peaceful commerce in the world. In major part because of vigorous American leadership, international trade since World War II has been substantially relieved of the restrictions and distortions that we had inherited from the 1930's.

I would remind the committee that in the 25 years since the end of the Second World War the world has had the longest period of sustained and rapid income growth in history, thanks in very important part to the unblocking of the channels of trade. The American people, along with peoples everywhere, have been the beneficiaries of this unprecedented period of prosperity.

The legislation before you incorporates many of the provisions that the President requested in his initial proposal to the Congress, including limited tariff cutting authority, liberalization of adjustment assistant provisions of the present Trade Expansion Act, and authority to eliminate the "American Selling Price" system of valuation.

It includes also a provision for the establishment of domestic international sales corporations, intended to assist our exports, which the administration subsequently had requested. The President has also indicated his willingness to accept a provision for restrictions on certain textile imports because our efforts to find other solutions to problems in our textile trade have thus far been unsuccessful.

The administration recognizes that the world environment is changing, that new economic, trade, and investment problems are appearing and that new approaches may be necessary. The President, therefore, has commissioned a group of distinguished Americans under the leadership of Albert Williams to study the emerging situation and to recommend a comprehensive set of foreign trade and investment policies for the 1970's.

In the meantime, a bill limited to the provisions I have just enumerated would be a positive factor in our relations with the rest of the world. It would be accepted by our trading partners as evidence of American intention to continue along the broad lines of the post-war commercial policy that has served us all so well. It would be taken as a signal that the United States will maintain its place of leadership in the development of the world economy.

It would put us in a favorable position to achieve further reductions in barriers to our exports. It would permit us, I believe, to deal with the difficult problems in our textile trade in a manner calculated to minimize difficulties with supplying nations.

Unfortunately, the bill before you includes a number of additional provisions which the President did not request and which the administration considers to be contrary to the national interest. Primary among these are, first, provisions for quotas on individual items apart from textiles and, second, the potential extension of restrictions, including quotas, to many other products through an excessive loosening of the escape clause.

Additionally, the proposed bill would depart from past escape-clause procedure by setting an arbitrary arithmetic formula to be used in assessing injury. I must tell you that if other countries were to apply this approach to our own exports, there would be grave damage to the sales of hundreds of American firms and to the jobs of hundreds of thousands of American firms and to the jobs of hundreds of thousands of American workers.

I urge this committee, therefore, to recommend to the Senate the elimination of these undesired and potentially damaging features of the legislation.

We have made a careful assessment of the impact of this bill, not only upon our economic interests, but also upon our international interests. We are convinced that it would cause serious harm to the United States.

Naturally, we have heard from other countries about their views of the legislation as it now stands. The President and I heard some of these views at firsthand during our recent journey to Europe. The reactions abroad to the pending bill are those of deep concern and even alarm at the apparent direction of American policy.

Our trading partners fear that the United States is about to make an historic turn in its foreign trade policy. Just as we have led the trading world on the way to a steady reduction of trade barriers, it is now feared that our example could drive the trading world back to the kind of bilateralism and resrictionism that crippled international commerce, including our own, in the 1930's, and contributed to the disastrous consequences that we all know.

It may be said that these fears are unjustified, that the proposed legislation merely seeks to deal with certain special and urgent problems of the United States, and that other nations too have restrictions on imports. The fact is, however, that the legislation before you could lead to restrictions on a very large volume of U.S. trade, as much as $3 billion or more, and other nations are acutely aware of this.

It is also a fact that the very size of the United States in the world economy lends special weight and emphasis to everything we do and that our actions do set an example, for good, or bad, for everyone else. Obviously, other nations have trade restrictions, as of course we do. But we and the rest of the world recognize that the way to a reduction of the remaining obstacles to trade in the world is through hard, reciprocal bargaining, not by adding new and unnecessary obstacles.

Considering the potential damage to trade and the amount of public attention that has been and will be given to this matter, it must be expected that other governments would not be able to accept passively increased trade restrictions by the United States.

There is widespread fear of an impending trade war that no one wishes, neither we nor our trading partners. But we must realize that the political pressures on other governments could be so great as to lead to retaliatory actions against our trade. We are a very large exporter and in some fields the volume of our more dynamic export items already gives rise to foreign concern.

I hope that the Congress will give us a trade bill which will preclude any possibility of serious retaliation. I think it is my duty, nevertheless, to tell you what easily might happen, and it would be wrong for us to minimize the travesty of the situation that we might come to face.

Let me add that a liberal trade policy is essential if the developing countries are to achieve the self-reliance that the Nixon doctrine seeks to encourage. If we are going to foster self-reliance by the developing countries of the world, we must not deny to them the possibility of earning their own way. If we do that, we shall undermine the very processes that generate self-confidence and growth. The consequence will be that we will hurt them and ourselves as well.

The legislation before you appears in some respects to give the President a wide degree of flexibility in the application of the provisions of the legislation. Some may argue that this will enable the President to avoid the application of the worst features of the bill. But in many instances, this flexibility could not be used.

Specifically, it would be extremely costly to discriminate among countries in order to moderate the impact of the legislation. We are solemnly committed, in the General Agreement on Tariffs and Trade and in many bilateral treaties, to treat other countries on a nondiscriminatory, most-favored-nation basis. To do otherwise would be to dishonor our obligations.

We have economic and trading interests everywhere. We do not want to become a victim of a world fragmented into trading blocs and bilateral arrangements. It would ill serve our Nation to take the lead in restricting trade and damaging or destroying the principle of most-favored-nation treatment that is now written in our own basic trade law.

Mr. Chairman, I have spoken out of deep concern for the potential damage to our industry and agriculture of certain features of the legislation that you are considering. It is possible for this committee to propose to the Senate a bill that will advance our economic interests, not retard them, that will uphold our status and position in world affairs and that will still enable the administration to deal effectively and constructively with the pressing problems of specific firms and industries in our domestic economy.

A statute that it limited to the provisions recommended or supported by the administration will do that. A statute with additional and restrictive features, such as are contained in H.R. 18970, on the other hand, would threaten our economic interests and would undermine our position in the world, without meeting the true nature of our particular problems at home.

I earnestly invite you to look upon our trade legislation as part and parcel of our total national interests and in the framework of a coherent political and economic policy that takes into account our domestic needs and our world responsibilities.

I urge this committee, therefore, and the Senate to remove from the bill these unneeded and dangerous features and to send to the President trade legislation consistent with our tradition of leadership and with our national interests.

Thank you, Mr. Chairman.

Senator ANDERSON. Thank you, Mr. Secretary.

We will now have questions of 5-minute duration the first time through.

Senator Fulbright.

Senator FULBRIGHT. First, Mr. Secretary, I think you have made a very constructive statement. I agree with it, and I would think people who do not have a special interest would agree with it.

But I wonder if you would be more specific on the last part of your speech about these unneeded and dangerous features. Could you say which they are, to be clear, so that there is no misunderstanding, that is, on the bill before us as distinguished from the President's bill?

Secretary ROGERS. Well, I think that any of the provisions that extend beyond the textile industry would be particularly dangerous because they will signal to the rest of the world that we are about to embark on a trade war, and I have no doubt from my discussions with other nations that there would be retaliation.

Senator FULBRIGHT. Well, this is what I wanted to emphasize because I gathered from the Secretary of Commerce that he was not disturbed about this retaliation aspect. At least, he did not take that very seriously and, as you know, he has just completed nearly 2 hours of testimony. I agree with your point of view.

The countries with whom we do most of our trading, particularly the trade in which my constituents are interested, are in the Common Market, in Japan, in the United Kingdom, and in Canada. These are the big ones where they pay in cash. I mean, these are countries which are quite competent and quite able, I would say, to be able to retaliate.

They are the countries to whom we sell a large part of our agricultural products in this country. We now have fewer members of Congress representing farm States and agricultural interests.

Nevertheless, it remains an important part of our economy, and I think they are playing fast and loose with it, and I believe that is the thrust of your statement.

Secretary ROGERS. That is correct, Senator.

Senator FULBRIGHT. It is very dangerous to do this, and expecially to do it under a head of steam of just 2 days of hearings. There is a great drive to get this under the wire without deliberation which normally accompanies legislation in this body.

It seems to me another way to put your statement—well, I mean to phrase it—is that you are supporting the concept of trade rather than aid with the underdeveloped countries. This was a policy, and it used to be very fashionable in the Congress, but now it seems to be reversing or about to be, if this bill is adopted.

Secretary ROGERS. Well, I think the future of undeveloped countries depends on trade. You cannot develop those countries by aid alone, and I do not think there is any question about it that the countries in the undeveloped world feel that trade is the future for them.

Senator FULBRIGHT. It is much more reliable. They really would like to end the aid program if they can develop trade, wouldn't they?

Secretary ROGERS. Yes, sir.

As a matter of fact, when they talk about aid they talk about it in terms of developing sufficient industry so that they can actively engage in more trade.

Senator FULBRIGHT. If we got their market and exclude it, there would be no change for it, it being the largest market of all.

Secretary ROGERS. That is correct; and also it is fair to say these underdeveloped countries have only one or two products that they can depend on, and so if there were restrictions imposed on those products it would very seriously undermine their economies.

Senator FULBRIGHT. I think your statement comes at a very propitious time. On Friday there were suggestions that, perhaps, we might do all right if we would just change over to a system similar to the Russians and create bilateral bartering arrangements, and we could then balance our trading with the Communists.

Do you think there is any hope in the future like that?

Secretary Rogers. Not at all.

Senator FULBRIGHT. It might be injurious in the long-term interests.

Secretary ROGERS. If you look at our position vis-a-vis the Soviet Union in the last 10 or 15 years, we have done very well, and we certainly would not want to adopt their system in view of the success of our own system.

Senator FULBRIGHT. Thank you very much, Mr. Secretary. I think you made a very constructive statement.

Secretary ROGERS. Thank you.

Senator ANDERSON. Senator Williams.

Senator WILLIAMS. No questions. I just congratulate you on your statement and welcome you to our committee. Recognizing the harmony between the Secretary of State and the Senator from Arkansas, I will just merely pass. [Laughter.]

Senator FULBRIGHT. It is not the only time there has been such harmony. This is only the lastest one.

Secretary ROGERS. It is getting to be a habit. [Laughter.]

Senator ANDERSON. Senator Bennett.

Senator Byrd.

Senator BYRD. Thank you, Mr. Chairman.

You do favor the bill as it pertains to textiles?

Secretary ROGERS. Yes; I do, Senator.

Senator BYRD. You do want a trade bill enacted?

Secretary ROGERS. Yes, sir.

Senator BYRD. And preferably at this session of the Congress?

Secretary ROGERS. That is correct, Senator.

Senator BYRD. Thank you, Mr. Chairman.

Thank you, Mr. Secretary.

Senator CURTIS. Mr. Secretary, I appreciate having your statement here. I would like to ask you, do you feel that if at all possible acute domestic problems should be solved by negotiation and agreement where that can be done?

Secretary ROGERS. Yes; I do.

Senator CURTIS. Do you share the feeling that a specific authorization for planned negotiations such as set forth in this bill will strengthen the hand of our Government in getting negotiations that will be fruitful?

Secretary ROGERS. You are speaking about the textile feature of it?

Senator CURTIS. Yes.

Secretary ROGERS. Yes; we do.

Senator CURTIS. I think that is all, Mr. Chairman.

Senator ANDERSON. Senator Miller.

Senator MILLER. Mr. Secretary, on page 6 of your statement you say:

> Our trading partners fear that the United States is about to make an historical turn in its foreign trade policy. Just as we have led the trading world on the way to a steady reduction of trade barriers, it is now feared that our example could drive the trading world back to the kind of bilateralism and restrictionism that crippled international commerce, including our own, in the 1930's, and contributed to the disastrous consequences that we all know.

I would have to say that the thrust of Secretary Stans' testimony was that that is the environment that now exists. He told us about bilateral agreements and restrictionism on the part of our trading partners, especially in the Common Market and in Japan. So it looks to me as if he is talking about a situation that now exists, whereas you are stating that, or you state that, our trading partners' fear might exist.

Do you have any thought whether it now exists and, if it does, then what are they talking about?

Secretary ROGERS. Well, Senator, I certainly do not think that Secretary Stans meant to suggest that the situation now was the same as it was in the thirties. There are some restrictions that we are concerned about. We are having discussions with many nations about them. We think the principles that are set forth in the GATT are still alive and well and are viable, and we think the way to deal with these restrictions is to discuss them with our trading partners and see if we cannot remove them.

I think we can eliminate them as time goes on, and I certainly do not subscribe to the idea that the way to conduct our foreign economic policy is to retaliate. I think if the United States should justify restrictive action, legislative action, on that basis it would require counter-retaliation on the part of other nations, and that will lead to a trade war.

If I may make one other comment, Senator—I think the trade picture this year is considerably better than it was last year, and we are encouraged by it.

Senator MILLER. What I cannot understand is why, if there is this bilateralism and restrictionism in these trading partners, among these trading partners of ours, why some action which is proposed in this bill should result in retaliation on their part.

It seems to me that a lot of the support for this bill, certainly over in the House, was based on trying to equalize the situation, not trying to get ahead, and when we are told that we should retaliate against their restrictions and bilateralism, and then we are told they are going to retaliate against us, it is difficult to understand that.

Let us say, everyone was complying with the GATT, and we were not violating any of those provisions, if we took the initiative ourselves, and started bilateralism and restrictionism, then I would think we would expect retaliation because they would have to try to equalize that situation.

But it is the reverse, as I understand it.

Secretary ROGERS. As I said, Senator, the trade picture is considerably better this year than last year. If things continue as they have up until this point, it may be that we will be three times as well off as we were last year in terms of the total result.

Anyway, we think the way to deal with these problems—there are always some problems in the trade field—is specifically and on a core by core basis; and, in view of our predominant position in the trade field we think that any action that would make it appear as if we were about to embark on a trade war could be disastrous. It is not a one-sided situation. We benefit very much from world trade.

We are envied by nations all over the world because of our trade position.

Senator MILLER. Well, may I say I do not have to be sold on the desirability of trade. But what worries me is that Secretary Stans and others from your Department go out and try to work out a problem area, and they do not get anywhere, so the next thing we know, we have a textile provision here which the administration supports.

We have some success, as I understand it, in the form of voluntary restrictions on steel imports, and that is succeeding, and that is fine.

But aside from the shoe situation, footwear matter in here, it seems to me that the thrust of the House Ways and Means Committee bill is to give the President authority to take action if these bilateral arrangements cannot be worked out so that if we ran into a similar situation in the future—and steel import matters were voluntarily negotiated, although we did not get into an agreement on footwear, for example, just as in the case of textiles—the President could take action without having to wait 6 months or a year for Congress to act. Now, do I misunderstand the authority that is set forth in this bill on that point?

Secretary ROGERS. Well, I have tried to make clear, in my judgment, Senator, that we do not favor that. We think it would be difficult for the President to put into effect, and we think we would have consequences that are undesirable.

Senator MILLER. I must say, if we do not do that I can see us here a year from now sitting down, legislating specifically on another item or another series of items, and I think it would be most unfortunate that every time the administration ran into an impasse on some of these specific items that they would have to come over to Congress and ask us to pass some new law such as the textile provision.

So what we are trying to do, certainly one thing I am trying to do, is to give some authority to avoid this constant running back to Congress, on the one hand and, on the other hand, give the President some flexibility so that he will have a little fiber in his negotiating position.

Secretary ROGERS. Well, Senator, as I said, the position of the administration is that we favor the proposals that we made to the Congress, and hope that the other features will be eliminated from the bill.

Senator MILLER. One further question along the lines of Senator Fulbright's interrogation. I did not hear the complete colloquy, but can you tell us if our position with respect to the developing nations is to work out arrangements whereby they may have preferential treatment with respect to our market on a bilateral basis or to do this in conjunction with the other developed countries?

Secretary ROGERS. In conjunction with the other developed countries.

Senator MILLER. In other words, that is a policy that I recall was adopted several years ago.

Secretary ROGERS. That is right.

Senator MILLER. And our policy remains the same?

Secretary ROGERS. That is correct, Senator.

Senator MILLER. Thank you very much.

The CHAIRMAN (presiding). Mr. Secretary, I am pleased to have you here. I had to leave the room momentarily when you appeared, and we appreciate your problem and your schedule and your pressure of time.

One thing that concerns me very much is that while our balance-of-payments statistics are something we can all agree on, and it presents a very unfavorable picture, and has done so for many years, we keep getting figures that, in my judgment, are completely misleading with regard to balance of trade.

Now, I interrogated Secretary Stans about this, and he agreed with me that you ought to be considering the ocean freight as well as the cost of insurance on transporting the commodities here as a part of the cost of a trade transaction. That is how all the other nations do it, so far as I know. There might be one or two exceptions, but not many.

The International Monetary Fund looks upon it that way, and when you add the cost of freight and insurance to your imports or if you just consider whose ship it is that is hauling those commodities which, in most instances, is the other fellow's ship, nine times out of ten, on a bulk basis, at least, and add that in, then we do not have a favorable balance of trade, and have not had for many years; we have an unfavorable balance.

For example, last year that so-called favorable balance that was referred to in Secretary Stans' statement, from our calculation works out to be a minus $4.4 billion, Now, he calculated somewhat differently, but even his would account for a minus $3.2 billion, if you include the cost of ocean freight in your calculation.

If you subtract the gifts that we are giving these foreign countries under Public Law 480 for which we are not being paid, and you crank into it an adjustment to account for ocean freight and insurance, that converts these favorable balances into an unfavorable balance,

Here is a chart that we have prepared which is about the way we think the International Monetary Fund computes it, and I would ask you if you agree with me that in the last several years of so-called favorable balances they have not been favorable at all, not when you take out your gifts and put in your ocean freight.

Secretary ROGERS. Well, Mr. Chairman, I understand your point. I do not know that we are prepared to say which calculation is preferable. I assume Mr. Stans has given some thought to that. In any event, as I said before you came into the room, the trade picture is a good deal brighter this year than last year.

The CHAIRMAN. Even though, according to Secretary Stans, if you take those two factors into account it is a minus, not a plus.

Secretary ROGERS. But it is still a lot better than last year. [Laughter.]

The CHAIRMAN. But if you are losing money, you are still losing money, and Secretary Stans concedes that if you look at your freight and take out the gifts to foreign countries under Public Law 480, we are still losing money.

I am reminded somewhat of what happened when I was in college. A friend of mine thought that he could work his way through school teaching people how to fly an airplane. I had a few dollars in the bank, so I loaned him the money to make a downpayment on it. He made a profit every year. In about 6 years, he had to go out of business, and the reason was he did not know what depreciation was. It was on a cash-in, cash-out basis.

Every day he taught someone how to fly he made money. But without putting any item in for depreciation there when the airplane wore out he was out of business.

If you are not counting the freight, if you are just putting it on like buying an automobile and saying, "I have paid the f.o.b. price Detroit," when all you really paid was the delivered price in Washington, over a period of time you go broke that way.

Now, the thing that concerns me about it, Mr. Secretary, is those who represent your Department and the Department of Commerce publish those figures. Here comes some fellow from the Japanese Parliament who was once the Japanese Ambassador to the Soviet Union, reading a very rosey article in the New York Times, which is the only paper most foreign diplomats are reading in foreign lands, and it says that the situation is wonderful.

Why in the world would anybody restrict imports into the American market with the big profit they are showing? I do not see how your people can get their job done when all a foreigner has to do is confront you with your own rosy publications about a favorable balance, when it is not really favorable at all.

How can you negotiate the most favorable agreement to us when our own published figures are saying that we have a good situation when, in fact, it is not good?

Secretary ROGERS. Well, as I said, I will certainly talk to Mr. Stans and see if he wants to change the method of calculation. I do not think the rest of the world is confused about the United States' position in trade or the strength of our economy. I have heard predictions for many years in Washington, as you have, that the United States was losing ground; that it was not strong and was being overtaken. It is not true, that is all.

I can remember the last years of the Eisenhower administration, when we had long discussions about the Soviet Union overtaking us. That, of course, did not come to pass. Just the opposite. We now are twice as strong as the Sovit Union in terms of gross national product, our economy is strong and our trade position is good. We certainly are not in desperate straits.

That does not suggest that we should not think of ways to improve, and we are. The President's trade proposals are good ones and we support them. But so far as the other features in the bill are concerned, as I said in my opening statement, we would hope the committee would eliminte them.

The CHAIRMAN. Well, Mr. Secretary, the thing that very greatly concerns me, just looking at the figures right there on that table, if you add them up since 1964, now, by the method of calculation, not just your administration, your predecessor, was using it before you came in here, that would indicate we had made a profit of $15 billion since 1964.

You add it up the way it should have been added up and we have lost over $10 billion. So there is a difference of $25 billion. But even more than that, to present those figures without showing the whole picture, without saying, "Look, we were not paid for all these agricultural giveaways, we didn't get a penny out of that, and we had to pay the ocean freight on what we were hauling into those countries." Put those into the scales, and there are $25 billion of the difference, which means this, that instead of saying we are making a profit at this so we must do more of the same, it makes the argument that we are losing money and cannot afford to keep this up. We must move in the opposite direction.

All I am saying is why don't we start publishing these figures in a way that reflect to these foreign nations as well as to ourselves the facts so that we are not confronted with our own official publications and our own American publications stating that which says the situation is wonderful when it is not.

Secretary ROGERS. I certainly see your point, Senator, and I will talk to the Secretary of Commerce about it.

The CHAIRMAN. Senator Fulbright.

Senator FULBRIGHT. Well, this discussion strikes at the center of this whole problem. If trade, as such, is unprofitable of course, we ought to stop it. We ought to put up a barrier around our country and not have it.

But there are many other things involved in this particular trade bill, as we mentioned before, which may or may not be the answer. I do not think they are.

You were mentioning retaliation a moment ago. There are a number of activities which contribute to our deficit, which we could restrict, and which would not inspire any degree of retaliation. For example, there was considered not long ago a restriction on tourism which contributes some $2½ billion, as the Secretary of Commerce has testified. If it is that serious and you wanted to do it, you could restrict tourism. They would not care, and they would not be embarrassed if we did not send so many tourists to Rome.

Secretary ROGERS. They certainly would not like it.

Senator FULBRIGHT. What would they do, outside of the hotelkeepers, they would welcome it as a political matter. They would vote confidence in it. Of course, the hotelkeepers would not like it, and the Secretary of Finance would not like it. But just as a matter of the serenity of life in Paris, they probably would welcome it. But in any case how could they retaliate? What would be the nature of the retaliation?

Go on to other things. Take the military bases abroad. It is true the immediate economy of this little town around a base might not like it, but in most countries, now would they retaliate if we closed a half or three quarters of the numbers of our military bases? There would not be any retaliation, would there? My only point is there are many other ways than just this way of cutting off trade. If it is as serious as the chairman believes—I do not know, I hope he is not correct—but if he is, then the facts speak for themselves about the nature of it.

There are other elements though that are involved here that you have to balance off, and there are such things as your agricultural economy. I do not want to leave the impression that all of the agricultural products we give away, that are sent abroad are given away. I mentioned that in the major areas, like in Europe and in Japan and in Canada, the United Kingdom they pay for it. It is not all given away.

There is another activity. Actually Public Law 480, the giving away of agricultural products was originally not for the benefit of the foreign country, but to get rid of a surplus, to relieve the pressure on our own economy. As a deliberate policy of this country we devised the giving away as one of the ways to relieve the pressure upon our own agriculture, and there was mostly bipartisan support for that program.

If it is inimical to our system we ought to quit it. In other words, there are other justifications than trade that were brought into the picture, and this is true of most of it.

So it comes back to the question in the beginning, in view of what you said about retaliation and trade in general, is this particular remedy that is being advocated here the right one. I do not think it is. Maybe some of it is. The administration's bill certainly is more moderate in that effect, but I think you made some very, very good points.

One reason why trade is improving a bit, I think, is there has been a degree of slowdown of inflation. I mean prices have not been going up so strongly as they were last year. This is again another point that comes in.

Secretary ROGERS. I think that is really the principal reason.

Senator FULBRIGHT. Sure. So if we would control inflation, if we quit wasting so much money on military expenditures, and our inflation came into order, then trade would right itself.

All through the 1940's and 1950's we had a very favorable balance of trade; didn't we.

Secretary ROGERS. Yes, sir.

Senator FULBRIGHT. Even taking into consideration these other items of insurance and freight the chairman has a point. The freight rate, for example on oil, tanker rates, most of which are owned by the Greeks, has gone up, I think, double or more in the last year or two because of the scarcity and because of the closing of the canal and many other reasons, but they are very much higher and we have to pay through the nose for that type of thing.

But I do not think it is simple enough to just say well, we will just stop trading with other countries and, therefore, stop losing money.

It is much more involved than that. Mr. Chairman. I do want to say Mr. Gibbons has called my office and said that he would be available to testify this afternoon or any other time.

The CHAIRMAN. I would just like to make this much clear, that I am not quarreling about the desirability of giving somebody commodities under Public Law 480.

I understand why we voted for it. All I am contending is that that should not be handled as though it is something that we were paid for, when it is an aid program. I just do not think we ought to add that into our foreign trade figures and try to make that look as though we have achieved a favorable balance of trade by virtue of the fact that we gave something away.

We might just as well have dumped the stuff in the ocean or even left it at the rail side, to begin with, for all it did for us as far as our balance of payments or trade.

Secretary ROGERS. I understood your point, Mr. Chairman.

The CHAIRMAN. It is to be considered on a completely different basis, an aid basis.

Secretary ROGERS. Yes.

The CHAIRMAN. Senator Miller?

Senator MILLER. Thank you, Mr. Chairman.

This does not involve the Secretary, but I do think in view of the comments of my colleague from Arkansas that we ought to complete the picture lest somebody get the idea that the only things that we looked at were agricultural surpluses in connection with Public Law 480. Because of the buy America strain on our foreign aid, which we were told that upward of 75 to 80 percent would come from American manufacturers, I think we ought to understand that other areas of industry besides agriculture are involved.

Senator FULBRIGHT. Oh, yes. I do not mean to make it the whole picture. I agree with the Senator. But I still think our agricultural exports are a very important item. Soybeans are very important in my State, as well as rice and cotton, and I think they have been a traditional earner. These are also raised in Iowa.

The CHAIRMAN. Thank you very much, Mr. Secretary. We understand your situation and we appreciate your appearance here today. Senator Fannin has asked that a letter he intends to send to you and your reply relating to preferential agreements dealing with citrus products appear at this point in the record.

(The material referred to follows:)

OCTOBER 14, 1970.

Hon. WILLIAM P. ROGERS,
Secretary of State,
Washington, D.C.

DEAR MR. SECRETARY: On August 26, 1970, I testified before the Trade Information Committee concerning the preferential tariff reductions extended by the European Economic Community to certain countries bordering on the Mediterranean. My understanding was that Tunisia and Morocco have been granted tariff reductions of 80% and that Spain and Israel have been granted tariff reductions of 40% for certain citrus products.

The preferences extended by the EEC directly affect fresh citrus exports. However, the consequences to citrus are only a part of the total effect. If the preferences can be maintained against any United States citrus then preferences granted by the EEC could be maintained against any United States export commodity whether agricultural or industrial. And, if the EEC can successfully maintain discriminatory preferences of this type, so can any other trading partner of the United States.

The very heart of the General Agreement on Tariffs and Trade is the General Most Favoured Nation Provision. As you know, this provision requires that preferences extended to a preferred nation must be extended to all other GATT members. Failure to extend such a preference violates the express agreement recited in GATT and agreed to by all the EEC member countries.

The Congress of the United States wrote the Trade Expansion Act of 1962 with the hope that it would stimulate the economic growth of the United States and maintain and enlarge foreign markets for the products of United States agriculture, industry, mining, and commerce. The Act specifically incorporated into it the Most Favoured Nation Provision, that any duty or other import restriction or duty-free treatment proclaimed by any trade agreement shall apply to products of all foreign countries.

The Act made provisions for those instances where continuation or expansion of United States agricultural exports is intentionally frustrated. Section 252 specifically treats the restriction or oppression of United States agricultural exports by foreign countries. Congress intended that when the conditions described in Section 252 existed, the President is to take the prescribed action. If the EEC will not withdraw the preferences granted or extend them on a Most Favoured Nation basis, then the President must invoke the sanctions of Section 252 of the Trade Expansion Act of 1962 in order to preserve the principle of Most Favoured Nation.

Would you kindly submit for inclusion in the Record, the Finance Committee trade hearings by October 21st, the action that has been taken under the Trade Expansion Act regarding the preferential tariff reductions?

My very best personal regards,

Cordially,

PAUL FANNIN, *U.S. Senator.*

DEPARTMENT OF STATE,
Washington, D.C., October 21, 1970.

Hon. PAUL FANNIN,
U.S. Senate, Washington, D.C.

DEAR SENATOR FANNIN: This is in response to your letter to Secretary Rogers about preferential trade agreements between the European Communities and Spain, Israel, Morocco and Tunisia. You ask what action has been taken in relation to these agreements.

We have told the European Communities about the aspects of these agreements that trouble us. We have said that they run counter to the most favored nation principle of the General Agreements on Tariff and Trade; that they threaten U.S. exports; and that U.S. citrus exports have already been hurt.

We have asked the European Community to discuss the damage to our citrus industry. The Community has agreed. The first session of these talks will take place shortly. They will be held under the appropriate provision and procedures of the GATT. We have made it clear to the Community that we expect corrective action within a reasonable period of time.

As we identify other products on which we are likely to suffer damage as a result of these agreements, we will proceed in the same way.

Sincerely,

DAVID M. ABSHIRE,
Assistant Secretary for Congressional Relations.

The CHAIRMAN. I am told that Gen. George Lincoln, Director of the Office of Emergency Preparedness, can make his presentation brief, and he would like to be heard this morning, so we will call you now, General Lincoln.

STATEMENT OF HON. GEORGE A. LINCOLN, DIRECTOR, OFFICE OF EMERGENCY PREPAREDNESS; ACCOMPANIED BY ELMER F. BENNETT, SPECIAL ASSISTANT TO THE DIRECTOR FOR OIL AND ENERGY; AND CHARLES KENDALL, GENERAL COUNSEL

Mr. LINCOLN. Mr. Chairman and members of the committee, I am honored by the privilege of appearing before your committee.

I have submitted a somewhat lengthy written statement for inclusion in the record, with your permission, and I will summarize that statement in 6 to 8 minutes.

The CHAIRMAN. I will assure you that I think the members here will study every word of it.

Mr. LINCOLN. The portions of the bill under consideration which have a bearing on my responsibilities are sections 104 (a) through (c) which would amend section 232 of the Trade Expansion Act of 1962.

Now, section 104(a) would prohibit the use of the tariffs by the President as a means of relief when it is found that the import of a particular commodity threatens to impair the national security. In effect, the section would leave the President only quotas as the means of relief.

Now, as you know, I recommended to the President on August 13, with the concurrence of all members of his Oil Policy Committee, that we discontinue consideration of moving to a tariff system for the oil import program and continue with our effort to improve the present quota system.

My reasons for making this recommendation were set forth in my letter of August 13 to the President which I have provided for the record along with the written statement I have submitted.

Briefly, they were that the United States will be in a transitional situation for some time with regard to oil, if only because of the uncertainty as to the date Alaskan oil will be available and the effects of the environmental programs.

Also, the new estimates indicate we have a more severe problem than we estimated earlier this year in preventing an unwise dependence on relatively insecure sources of supply by even as early as 1975.

The recent interruption in the flow of oil to Europe, while comparatively small in quantity, has caused significant disruption of the international oil situation, and then recent developments have increased misgivings about moving to a tariff system at this time, and whether the tariff system is a feasible method of controlling oil imports.

I have discussed these reasons briefly in my full statement submitted for the record.

But referring to the draft legislation before you, the administration does not believe the provision in 104(a) prohibiting the use of tariffs is sound. My reasons are that the legislative prohibition of tariffs would be an undesirable limitation on the President's discretion.

The prohibition would place in law an inflexibility which could conceivably interfere with carrying out the intent of the legislation. That intent is to control imports which threaten to impair the national security, and I underline those last few words, and it is a different intent from other sections of the bill.

We did not, for instance, consider a tariff system in 1959 when we adopted the quota system for oil. I understand, by the way, that one of the reasons it was not considered was that at that time the State Department thought it would be contrary to some of our GATT Agreements.

A tariff system, of course, also interferes with economic forces, the extent depending on how you operate the system.

Oil does seem to me to be possibly, although not certainly, a somewhat different case from some commodities for which the legislation might be considered for use. The international pricing of oil is materially dependent on taxes and royalties of foreign countries and also materially dependent on transport.

Security turns very materially on transportation as well as on secure supply sources.

Now, commodities, not so dependent on transportation and with costs much more dependent on labor and other manufacturing costs, might conceivably be better handled by a tariff.

Also, even though some have argued that a tariff system for oil was unmanageable, it may be that a quota system would be found unsuitable for protection of some commodity identified in the future as warranting that protection. Hence, in summary, my counsel to your committee is, respectfully, to keep the future open in this particular case.

Now, section 104(b) would require that national security investigations under section 232 or the Trade Expansion Act be completed within 1 year, and the principle, of course, I agree with.

Under previous administrations, disregarding the one-third of the 232 cases that were withdrawn or that had received considerable investigation before formal petition, the time required to reach a finding did vary from 12 months to 36 months with an average of 20 months and I do firmly believe that industry and the public are entitled to have investigations under section 232 completed promptly. So I offer no formal objection section 104(b) of the bill.

But I do point out that when the industry is a major one or a highly complex one or when import data are not available, and this can happen and has happened, and we have had some discussion of the difficulties about data this morning, it may be impractical or even impossible to carry out the investigation in the depth required by the law within 1 year. Section 104(c) would require a completion within 60 days after enactment of this bill of investigations initiated on or after January 1, 1968, and underway for 1 year. Only one case is involved and it will be finished shortly.

Now, I have brought with me my special assistant for oil and energy, Mr. Elmer Bennett, and our general counsel, Mr. Charles Kendall, and we will do our best, gentlemen, to answer your questions.

(The prepared statement of Mr. Lincoln follows. Hearing continues on page 288.)

STATEMENT OF GEORGE A. LINCOLN, DIRECTOR, OFFICE OF EMERGENCY PREPAREDNESS

Mr. Chairman and Other Members of the Committee: The bill on which you have asked me to testify deals with a wide range of tariff and trade problems. Most of these matters are not within my competence as Director of the Office of Emergency Preparedness, and I must defer to other Executive Branch officials, such as the President's Special Representative for Trade Negotiations, the Secretary of State, and the Secretary of Commerce to testify on them.

I address my testimony to Sections 104 a–c of the bill, which would amend Section 232 of the Trade Expansion Act of 1962. This Section pertains to my responsibility, under circumstances set forth in the law, to investigate allegations that imports threaten to impair the national security It is also related to the responsibilities given me by the President on February 20, 1970, for policy direction, coordination, and surveillance of the oil import program, in which I act with the advice of the Oil Policy Committee, created at the same time.

PRELIMINARY REMARKS ON THE OIL IMPORT PROGRAM

At the outset of my statement on the oil import program, I invite your attention to the distinction between the oil import program on the one hand and the efforts of the Energy Subcommittee of the Domestic Council to cope with a possible energy shortage on the other. The oil import program, for which I provide policy direction, is a national security program designed to prevent the United States from becoming dependent on foreign petroleum imports in ways and to a degree that would threaten to impair its national security. It is essentially a long-range program, and deals only with oil. For practical purposes, it does not deal with residual oil imports to the East Coast of the United States, which have not been subject to quantitative controls since 1966.

The Energy Subcommittee of the Domestic Council, under the chairmanship of Chairman McCracken of the Council of Economic Advisers, on the other hand, is dealing with the entire scope of domestic energy—gas, coal, and hydroelectric and nuclear power, as well as oil. The Energy Subcommittee presented a short-range report on the fuel situation for the approaching winter on September 29, and established a Joint Board, of which I am chairman, to cope with this winter's fuel problems. The Subcommittee is continuing its work, now looking over the span of the next five years.

To make this distinction in concrete rather than bureaucratic terms, I point out that even before I was named Chairman of the Joint Board on September 29, I was receiving a great deal of mail asking me to do something through the oil import program about the short supply and high cost of residual fuel on the East Coast. Actually, the oil import program has, in effect, permitted free importation of residual fuel to the East Coast since 1966—the only broad exception to the quantitative controls of the oil import program. This exception afforded the East Coast lower prices than it would otherwise have enjoyed. But it also permitted the East Coast to become heavily dependent on foreign sources for its residual fuel. Now the demand for residual fuel has increased greatly worldwide, and tanker rates have increased because of the Middle East situation. As a consequence, foreign residual fuel has ceased to be available at prices substantially lower than those economical for U.S. domestic production.

A last introductory comment on the oil import program is that the Cabinet Task Force Report of February 20, 1970, appears to me to have been widely misunderstood. Many seem to believe that its primary—even sole—objective was a major reduction in the price of oil to the consumer. Too much has also been made, in my opinion, of the tariff versus quota issue, perhaps because it was a principal point of difference within the Task Force. Some of the key points of the Task Force Report seem to have escaped attention: the finding that oil import controls continue to be necessary for national security, the differentiation among foreign sources on the basis of their relative security, and the need for the establishment of a new management system to make necessary policy changes in the oil import program.

POLICY CHANGES SINCE FEBRUARY 1970

Since February 1970, the following changes have been made in the oil import program upon my recommendation with the advice of the Oil Policy Committee:

1. On March 10, 1970, a formal system of regulation was instituted for crude and unfinished oil imports from Canada into Districts I–IV, replacing a voluntary system that had proved ineffective in providing for an orderly growth of such imports. (This action was consistent with paragraph 335 of the Task Force Report.) The import level was set at 395,000 barrels per day (b/d). (When imports into District V and Oil Import Appeals Board awards are considered, the flow of oil from Canada has reached a level of about 647,000 b/d, slightly higher than the level recommended by the Task Force Report, paragraph 433 b, for July 1971.)

2. At the same time, a representative of the Justice Department replaced the representative of the Defense Department on the Oil Import Appeals Board (as recommended in the Task Force Report, paragraph 437).

3. On June 17, the crude oil import quota was raised by 100,000 b/d (as had been recommended by paragraph 424 of the Task Force Report, and paragraph IV B 2 of the Separate, or Minority, Report).

4. At the same time, the import ceiling was raised to permit importation of 40,000 b/d of No. 2 fuel oil for distribution by independent deep-water terminal operators on the East Coast (as had been recommended in paragraph IV B 8 of the Separate Report and consistent with paragraph 311 of the Task Force Report).

5. Also on June 17, the requirement of licenses or allocations was eliminated for transportation of oil by pipeline between points in the United States via a foreign country, and it was announced that the so-called "Brownsville Loop" would be terminated at the end of the year. (The "loop" is a procedure under which 30,500 b/d of unfinished oil enters the United States at Brownsville under bond, is trucked into Mexico and then re-enters the United States under an overland exemption.) The oil in question will be permitted to enter the United States without having to be placed in bond, taken out of the United States, and re-entered.

6. On June 23, I concurred in the recommendation of the Secretary of the Interior that the annual level of imports for Districts II–IV be increased by 9.5 million barrels of low-sulfur residual fuel oil, to be awarded by the Oil Import Appeals Board.

7. On July 13, I advised the Secretary of the Interior that the national security would not be impaired if the level of asphalt imports were increased by up to 5 million barrels above the total level of imports established for the last half of the calendar year. Allocation of these asphalt imports in cases of exceptional hardship was left to the Oil Import Appeals Board. (This action was in keeping with the Task Force Report, paragraph 312.)

8. On July 14, it was announced that historical product allocations based on imports under the Voluntary Oil Import Program 1957–1959 will be terminated January 1, 1971 (as has been recommended in paragraph 428 of the Task Force Report, and paragraph III B 8 of the Separate Report).

9. On July 16, it was announced that historical allocations for crude and unfinished oil based on imports under the 1957–1959 Voluntary Oil Import Program will also be eliminated January 1, 1971, (as recommended by paragraph 428 of the Task Force Report and paragraph IV B 6 of the Separate Report).

10. On August 11, I advised the Secretary of the Interior that the Oil Import Appeals Board should be authorized in exceptional hardship cases to permit allocations for overseas crude oil to be applied to overland imports from Canada.

11. On August 16, a rule-making proposal was published for public comment, permitting the sale of allocations of crude and unfinished oils, of licenses issued under such allocations, and of imported crude and unfinished oil. (This procedure had been considered in the Task Force Report, paragraph 320.)

(On September 29, seven further decisions were announced, in conjunction with the program of action developed by the Energy Subcommittee of the Domestic Council to help meet immediate fuel problems.)

12. The importation of 40,000 b/d of No. 2 fuel oil by independent deep-water

terminal operators on the East Coast (item #4 above) will be continued through calendar year 1971, of which 80,000 b/d are to be concentrated in the first quarter under the terms of the licenses to be issued.

13. Natural gas liquids, which are produced in connection with the natural gas we are importing from Canada, will be exempted from the Canadian crude oil limitations.

14. Importation of ethane, propane, and butane from the Western Hemisphere will be permitted.

15. Topping of crude oil imported into District I for fuel will be permitted outside the quota if both the residuum and topping are used for boiler fuel.

16. Topping of crude oil imported for fuel from Canada will be permitted outside the quota if the topping is used for boiler fuel or re-exported to Canada.

17. Viscosity requirements for crude oil used for burning will be eliminated.

18. Oil imports from Canada will be permitted to enter by waterways, other than ocean waterways.

PUBLIC NOTICE

In making these policy changes, we have given the fullest practicable opportunity for public comment beforehand, in accordance with the Administrative Procedure Act and with the principles set forth in paragraphs 350 a–c of the Task Force Report.

Except in the first urgent action on Canadian imports, when only 10 days were allowed for comment, we have afforded the public 30 days for comment on proposed regulations. That this was a *bona fide* invitation rather than a *pro forma* action is evidenced by the fact that changes were made in several of the proposals to take account of comments received.

REASONS FOR DISCONTINUANCE OF CONSIDERATION OF A TARIFF

The Committee will be particularly interested in the reasons for my recommendation, concurred in by all members of the Oil Policy Committee, that we discontinue consideration of a tariff system for the oil import program. My reasons are given in my letter of August 13, to the President, a copy of which I present to you. I will explain and expand slightly upon those reasons.

WHY A RECOMMENDATION WAS NECESSARY AT THAT TIME

Toward the end of my letter, I said that I provided this advice now "since planning for the next oil allocation per must soon get underway."

Remember that we have been giving the fullest practicable opportunity for public comment on proposed changes in the oil import program. Such an opportunity would have to be provided on the important issue of a change to a tariff system, which had been debated publicly ever since the Task Force Report was issued. The publication of the notice, the allowing of 30 days or more for public comment, and the further time required to evaluate the comment and to reach a decision would have carried us toward the end of the calendar year. Hence, it was necessary to decide by about September 1 if the recommendation of the Task Force to begin the transition to a tariff on January 1, 1971, was to be carried out.

Moreover, it had become clear that the United States will be confronted by actual and potential fuel problems for an indefinite period. I believe that a further disruption of our petroleum program in this period, on top of problems which include Middle East oil, tanker rates, and increased demand for residual fuel, would have impaired, perhaps gravely so, efforts to meet those problems.

I could, of course, have recommended some later target date for a change to a tariff. I recommended that we discontinue consideration of the tariff for additional reasons, also set forth in my letter.

TRANSITIONAL CONSIDERATIONS

I expressed the view in my letter that "our country will be in a transitional situation for some time with regard to oil, if only because of the uncertainty as to the date Alaskan oil will be available and the effects of the environmental programs."

Alaskan oil was a matter of considerable uncertainty in the analyses of the Task Force (see Appendix D of the Task Force Report), especially the amounts involved and the costs. To these uncertainties we must now add the increased uncertainty as to when Alaskan oil will enter the U.S. market, because the construction of the Trans-Alaskan Pipeline System has not proceeded as rapidly as anticipated.

We had not fully appreciated the lag in the development of nuclear energy, which leaves oil and other fuels to carry more of the burden than had been expected.

We also had not fully appreciated the high rate of increase in consumption of residual fuel. Although normal demand increase had not exceeded 2% a year until recently, residual fuel consumption in 1969 increased 11% over 1968, and in the first six months of 1970 increased more than 20% over 1969.

A factor underlying these changes is the environmental programs now being given great emphasis by the Federal Government and by state and local governments. Although the increase in residual fuel consumption is partly attributable to the short supply of gas, it is also attributable partly to requirements to use low-sulfur fuels, to reduce air pollution. The strong urge and support for a cleaner environment means that some price must be paid incident to the trend toward cleaner fuels affecting petroleum demand, and to reluctance toward some types of development affecting petroleum supply (e.g., the Alaska pipeline, and off-shore drilling). The precise effects of these environmental programs on our energy situation cannot yet be determined.

UPWARD REVISION OF ESTIMATES OF CONSUMPTION

I also referred in my letter of August 13 to the President to the fact that "new estimates indicate we have a more severe problem than we estimated six months ago in preventing an unwise dependence on relatively insecure sources of supply by even as early as 1975."

This is not a question of criticizing the Task Force estimates or of setting government estimates against industry estimates, but rather an upward revision of all our estimates of consumption, as a result of environmental programs and evidence that, for many other reasons as well, U.S. and world consumption of oil is increasing more rapidly than had been estimated a year ago. Although there are variations in these estimates, the consensus indicates that consumption will probably be higher than indicated by the Task Force Report.

On the other sde of the coin, it now appears that production in various areas—new production in Canada, for example—may be lower than estimated by the Task Force for the nearer future.

These estimates of consumption and production were fundamental elements of the Task Force Report, and the revisions now indicated for these estimates may substantially alter the scope of the problem. The revision of estimates is part of the growing domestic energy problem, on which Dr. McCracken's Subcommittee is at work, and on which several agencies are developing five-year studies and programs.

EFFECTS OF THE INTERRUPTION OF MIDDLE EAST OIL

In the August 13 letter I further pointed out that "the recent interruption in the flow of oil to Europe, while comparatively small in quantity, has caused significant disruption of the international oil situation."

The Suez Canal has been closed since 1967, requiring that a considerable part of the oil from the Middle East be transported by tanker around the Cape of Good Hope. This summer the Middle East and African oil coming to Europe by short haul across the Mediterranean has been significantly reduced: 470,000 b/d were cut off when the Trans-Arabian pipeline was breached in Syria, and Libya has reduced its production, first by 700,000 b/d modified to 425,000 b/d in September. This additional 900,000 b/d of oil must now also take the long tanker voyage around the Cape of Good Hope—a voyage that requires about six times the tankers required previously to carry the same amount of oil from the eastern or southern Mediterranean.

This reduced flow of oil across the Mediterranean to Europe has created a tight situation for tankers, with a resulting sharp increase in spot rates for tankers. As time passes, spot rates affect longer term charters. Together with the increased U.S. and world demand, tanker rates are unquestionably a factor in the high prices and limited availability of residual fuel. The value of U.S. import "tickets" dropped from approximately $1.50 a barrel to a comparatively low value. The partial restoration of Libyan production in September has thus far only slightly ameliorated this situation.

MISGIVINGS ABOUT THE FEASIBILITY OF TARIFF CONTROLS

In my letter of August 13, I noted that "recent developments have increased misgivings about moving to a tariff system at this time and about a tariff system as a feasible method of controlling oil imports."

There has been debate about the Task Force's recommendation that a tariff system of control be substituted for the existing quota system. When the present quota system was established in 1959, there had been no consideration of a tariff system as an alternative: at that time, such a system seemed out of line with GATT policies. In the light of subsequent experience, the Task Force did find a tariff system worthy of consideration. Many economists consider it less, rather than more, objectionable than a quota system. The tariff recommended by the Task Force was not a usual tariff: it was devised for national security purposes, and would differentiate among areas of origin as to tariff rate and maximum volume of imports (e.g., imports from the Eastern Hemisphere would be limited to 10% of domestic demand).

The purpose of either a quota or a tariff system for the oil import program is to avoid unwise dependence upon foreign sources over the long term. Neither is particularly suitable as a management system for dealing with a short-run supply emergency. There are, however, significant differences in how the two methods operate in such a situation, particularly when the shortage manifests itself through a sudden, even drastic, increase in cost of delivered foreign oil.

The present condition of a restriction on flow of oil from some Middle East sources and a tight tanker situation gives us some insight into how the quota system operates to provide some measure of supply continuity. In normal times importers can bring in foreign oil at well below domestic prices. This price differential, which this spring was approximately $1.50 a barrel, is what gives value to an import ticket. Increases in the price of delivered foreign oil resulting from a tanker shortage or other reasons will not affect the willingness of importers to continue to bring in foreign oil as long as the price increase does not completely wipe out the value of the import ticket. Nor in the short run, at least, are U.S. crude prices likely to be significantly affected.

Present spot tanker rates are high enough to wipe out this differential. However, the fact is that the majority of tankers are either owned by the importing companies or are on long term charter. Thus, initially at least, these companies do not have to pay the high spot tanker rates, although they will experience a progressing effect with the passage of time. The combination of the quota ticket buffer and the structure of the tanker market thus far helps to prevent a sudden decline of crude imports.

A tariff on the other hand would in normal times equalize the cost of domestic crude and delivered foreign crude. Hence, any sudden increase in the costs of delivered foreign crude would immediately discourage imports (and encourage domestic production and/or increase in domestic price). Only the slowness of response in charter rates would remain as a buffer.

Conceivably, the tariff would be adjusted downward to substantial changes in costs. But to operate the tariff like a "yo-yo" in response to every fluctuation in tanker rates or other important cost factors seems to me to be impracticable. The requirement to provide public notice and time for comment would alone prevent a timely adjustment.

In the absence of tariff adjustment, the equilibration of supply and demand would be left to the market mechanism. Imports would be sustained only by a domestic price increase sufficient to cover the new high cost of imported oil plus the tariff. Minor fluctuations in price should not be harmful to the domestic economy, and in fact might encourage a more efficient use of resources. On the other hand, drastic swings in price resulting from supply disruptions would not afford lead-time to increase domestic production, and would be detrimental.

In the long run also, questions can be raised as to the effectiveness of a tariff as a control mechanism for oil imports. The advocates of a tariff have recognized that it has certain weaknesses as well as advantages. Unlike a quota, a tariff attempts to limit imports indirectly, by equalizing the cost and hence the price of the imported product with the price of the domestic product. If the cost of the imported product consists almost entirely of the cost of labor and resources used in producing it, then the tariff can be set quite accurately, and need be adjusted only in response to long-term changes in the cost of these resources. But a large portion of the price of international crude consists of royalty payments and taxes paid to the governments of the countries where the oil is produced. As such, these prices can be subject to sudden changes and even to deliberate manipulation. Hence the tariff may be a less reliable mechanism of control for oil than a quota, and less reliable for oil than tariffs on other commodities which have a larger proportion of labor costs and other manufactured cost factors.

These uncertainties as to the effectiveness of a tariff, particularly in a short run supply disruption, give one pause. For these reasons and because of uncertainties in both the supply of and demand for oil in the United States, I recommended that we discontinue consideration of a tariff system.

COMMENT ON SECTION 104A OF THE BILL

I advise against the proposal in Section 104a of a bill to prohibit the use of tariffs by the President as a means of relief when it is found that certain imports threaten to impair the national security. This provision applies equally to past and future actions under Section 232 of the Trade Expansion Act. Consequently, it is not accurate to describe it as an oil quota freeze amendment.

The Administration is opposed to this provision on the grounds that it is an undesirable limitation on the President's discretion. I fully subscribe to that position.

There is much that can be said in favor of a tariff system, or a combined quota and tariff system. Consequently, I counsel against legislatively excluding a tariff from consideration, and permitting only quotas to be used. I can conceive of a situation where we wished to provide protection under Section 232 and a quota would not be suitable, whereas a tariff would. I believe that the President should be left with his present broad discretionary authority to deal with each such case on an individual basis.

COMMENT ON SECTIONS 104 B AND C

Section 104b would require that national security investigations under Section 232 of the Trade Expansion Act be completed within one year.

I have examined data on the time required for such investigations under previous Administrations. About one-third of the cases have been withdrawn by petitioners, in time periods of from three to 36 months. Of the cases in which findings were reached, aside from cases which had received considerable investigation prior to a formal petition, the time to reach a findings has varied from 12 to 36 months, with an average of 20 months.

I firmly believe that industry and the public are entitled to have investigations under Section 232 completed promptly. The law requires a study in depth of the entire industry involved in each case. When that industry is a major one or is highly complex, or when import data are not available, the task may be lengthy, if the law is to be carried out. Every Director is pledged to carrying out the law. While offering no formal objection to the Section, I do point out that it will sometimes be impractical, even impossible, to complete the action in a year.

The proposal in Section 104 to require completion within 60 days of the enactment of this bill of the investigations initiated on or after January 1, 1968, and under way for one year would affect only one investigation, which will be finished shortly.

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF EMERGENCY PREPAREDNESS,
Washington, D.C., August 13, 1970.

The PRESIDENT,
The White House,
Washington, D.C.

DEAR MR. PRESIDENT: Approximately six months ago you established a new management system for the Oil Import Program. That system has been proceeding, in accordance with your instructions, with interim actions directed to improving the program. Actions have included proclamation changes by you on my recommendation and regulatory changes by the Secretary of the Interior with my concurrence. These actions have been taken with the advice of the Oil Policy Committee.

The greater part of historical allocations stemming from the voluntary program which ended in 1959 will be eliminated at the end of the year. The anomaly of shipment of Mexican oil imports out of, and then back into, the United States will also be eliminated. A formal regulatory system has been instituted for Canadian imports at a considerably expanded level of imports over 1969.

With the advice of the Oil Policy Committee that the action will not adversely affect national security, the level of foreign imports of crude oil has been raised for 1970. A program of importation of No. 2 heating oil has been instituted for the East Coast. The Oil Import Appeals Board has been given authority to allow increased importation of residual fuel oil for the mid-continent area to alleviate hardship and reduce pollution, and to permit increased importation of asphalt for the East Coast.

Arrangements have been made for the Oil Import Appeals Board to provide relief for hardship cases, by authorizing imports of crude oil from Canada above the level of the Canadian quota but within the overall quota. Also, a recent action will permit those refineries which receive Canadian allocations and which prove a hardship situation to use their offshore quota allocations for imports from Canada.

The Oil Policy Committee has concurred in my recommending to you that exchange of quota allocations be permitted through sale of quota tickets or of imported oil. The need for this reform, which strengthens the free market aspect of the program, has been emphasized by the current disruption in the international oil and tanker markets.

The type of international disruption mentioned above raises a potential management problem of major proportions. Other problems have become more evident since last February when you established the new management system for the oil import program. These include the increasingly apparent effect of the environmental programs and the effect of the coal and gas supply situation on the requirements for oil and on the composition of these requirements. Undoubtedly, these factors will be considered in the study of the national energy situation which you have recently directed the Domestic Council to undertake.

Six months ago, I joined with other members of the Cabinet Task Force in recommending that we should proceed at the beginning of the next year to a transition to a tariff system. I did not consider that this change would necessarily result in any significant decrease in costs to the consumer. I hoped the system, while continuing to provide the needed support to national security, could provide a freer market for oil, and be made simpler and more easily understood.

Recent developments have increased misgivings about moving to a tariff system at this time and about a tariff system as a feasible method of controlling oil imports.

The recent interruption in the flow of oil to Europe; while comparatively small in quantity, has caused significant disruption of the international oil situation.

Two other considerations are at least as important to me. First, it appears that our country will be in a transitional situation for some time with regard to oil, if only because of the uncertainty as to the date Alaskan oil will be available and the effects of the environmental programs. Secondly, new estimates indicate we have a more severe problem than we estimated six months ago in preventing an unwise dependence on relatively insecure sources of supply by even as early as 1975.

The individual members of the Oil Policy Committee are impressed in varying ways by each of the three considerations mentioned above. All of us recognize that the method of control is a means to the national security end, which includes limiting U.S. dependence.

Because of these factors, the Oil Policy Committee concurs with my judgment that we discontinue consideration of moving to a tariff system of control, but rather continue with our efforts to improve the current program. I provide this advice to you now since planning for the next oil allocation year must soon get underway.

I would be remiss if I did not express to you my concern about the long run and even mid-term outlook for assuring the achievement of the national security objectives on which the oil import program is based. From a management viewpoint the program faces the danger of being gravely weakened by special actions and exceptions urged by both critics and supporters of the current system. More importantly, we also face the growing danger of not having adequate supplies from reasonably secure sources—a vast problem which cannot be separated from our overall energy policy. National security must be a central consideration in working out that overall policy.

We look to the further definition of policy, which you are now seeking, in the overall energy area to give a more reliable base for our national security oil import program.

Respectfully,

G. A. LINCOLN,
Director.

The CHAIRMAN. Well, thank you very much, General Lincoln.

Of course, you are aware of the fact that if Congress should enact the recommendations before us if the type emergency that you have in mind should arise with regard to some other commodity, of course, it would be within the power of Congress to pass legislation to authorize the tariff approach in the event that proved to be desirable.

Mr. LINCOLN. I am certainly aware of that, Mr. Chairman, but I am also conscious of the weight of work that is placed on Congress, and it is sometimes time consuming to achieve worthy legislation.

The CHAIRMAN. I understand that.

Can you tell us whether or not there are any cases pending in your office under the national security provision on steel, textiles, or footwear, and if there are, how many are pending?

Mr. LINCOLN. There are none for steel and footwear. There is a case in textiles which was filed in 1961 in the previous administration which I found when I took office and was told that this was suspended by informal understanding with the textile industry.

I have already made a statement in a committee in the other House in answer to a question on this, that if the industry did wish to provide the updated data, which would, of course, be necessary since the industrial situation has changed considerably since 1961, we would, of course, recognize that we should proceed with the case. Obviously at the present time we cannot act on the 1961 data.

The CHAIRMAN. If you reach positive decisions with regard to this textile matter, would that supersede any action that we might take in this legislation?

Mr. LINCOLN. I would have to ask the view of my counsel on this matter. It seems to me that the thrust of your legislation is quite different from the national security thrust. But may I ask Mr. Kendall if he will comment on that?

Mr. KENDALL. I think, Mr. Chairman, that the relief provided by section 232 would be superimposed on any other situation.

It is likely, I would expect, that if action were taken under the bill, if the bill were passed and action taken under it, there would be, perhaps, no occasion for further action. But if there were such occasion, it could be taken on top of the relief provided by the bill.

The CHAIRMAN. Senator Miller.

Senator MILLER. Thank you, Mr. Chairman.

Mr. Lincoln, in your statement on section 104 of the bill you say:

I can conceive of a situation where we wished to provide protection under section 232 and a quota would not be suitable, whereas a traiff would.

Mr. LINCOLN. I have thought about the question, and in view of the fact that I have the problem of making judgments on this, I would prefer not to give a specific example.

I have in mind that the oil quota situation is handled on a volume basis, and oil is a product which is easy to handle on a volume basis.

If you had a commodity that was widely variegated, and I can think, well, of electronics, it seems to me that it would be quite difficult to use a quota method, and it might be easier to handle it by tariff.

Senator MILLER. Well, you are thinking in terms of administrative problems.

Mr. LINCOLN. I am thinking of the management problem, and this is a very real problem. In fact, it is the crux of the matter almost.

Senator MILLER. If you wished to work up an example in a little more depth and furnish it for the record, I think I would welcome it.

Mr. LINCOLN. I would say that one of the problems one has in this is that I have the responsibility of passing on these matters and so an example might better be of widgets than some specific commodity.

Senator MILLER. Well, I do not want to put you in an embarrassing position, but possibly you might be able to furnish for the record an example that would not cause that, a hypothetical example.

(The following hypothetical example was submitted in response to Senator Miller's question.)

An *ad valorem* tariff might reasonably protect American industry better than a quota where the product concerned is characterized by widely different specifications and values. For administrative feasibility quantitative quota would usually need to be based on physical and economic characteristics common to all products the quota encompasses. If the value of these products depends primarily on variegated characteristics, a quota may not afford the protection it was established to achieve.

An example will put this in a clearer light. In order to avoid describing an industry which might come under consideration under Section 232, a product is chosen, as an example, which cannot reasonably be thought to be involved in the nation's defense, namely, dolls.

The value of dolls varies according to their age, decoration, maker, stature, and moving actions the dolls perform, among other factors. On what characteristics could a quota on dolls be based? The two that come first to mind are numbers and weight. But neither of these bases take account of the several determinants of value just given. Instead, a quota on either basis would encourage foreign suppliers to concentrate their competition with American industry in our industry's most valuable products. Foreign suppliers would export dolls on which the profit is highest per individual doll or per unit weight. Thus a quota based on numbers would allow the import of antique dolls, perhaps so many as to afford no protection at all to our antique doll trade. Under a quota based on weight, there might be no protection for domestic manufacturers from hand-painted dolls decorated by highly skilled foreign craftsmen receiving comparatively low wages.

Furthermore, quotas give less protection to high unit value products when domestic industry needs it most; namely, in a time of declining demand in the domestic market. Then, other things being equal, the sales of the more expensive American dolls would be the first to decline and would absorb most of the loss in sales the domestic market would experience.

Under these circumstances, a quota brings or allows the very ill-effects it is established to forestall. None of these defects attend an *ad valorem* tariff. Such a tariff offers foreign suppliers no incentive to concentrate their exports to us in a few categories of dolls, it allows every kind of doll sold by American industry to compete on the basis of price with foreign dolls of the same kind, and it affords foreign dolls no advantage in the competition for shares of a declining demand.

Senator MILLER. Now, with respect to sections 104 (b) and (c) you say you are concerned about how it might take more than a year to do the complete and thorough job envisaged. Would it be feasible to amend this bill to provide for some kind of prompt purely tentative actions pending the outcome of the full investigation if certain criteria were met which would be in the nature of an emergency situation? Would that enable us to take prompt action where there is an emergency type situation and then, of course, that would be subject to modification or possibly revocation at the conclusion of the complete investigation? Would that relieve your problem on these sections?

Mr. LINCOLN. One of the difficulties, of course, in conducting an investigation, particularly a complex one, is the heavy dependence on the inputs of other Government agencies who are overworked, and the limited number of personnel oftentime, who are expert in the area. So it is a matter sometimes of priority.

It has, I understand, looking at the record in several cases, sometimes been a matter of the absolute unavailability of the data and the necessity of letting some time go by while one collected the import data.

Now, there are sometimes also other remedies available, such as the Tariff Commission powers and the Buy America Act, and on this I will again turn to my general counsel to ask him if he has a comment.

Mr. KENDALL. No, I think not, I would not have a comment on it.

Senator MILLER. Well, if you or your counsel might have some idea on a provision which could be put into this proposal that would enable a relatively prompt action in an emergency type situation, I think we might welcome them because it would seem to me that that would relieve your concern over a long time taken or a complete investigation.

Mr. KENDALL. Excuse me, Senator, would you mean a national defense emergency or an industry emergency?

Senator MILLER. I am referring to page 17 of General Lincoln's testimony at the bottom of the page where he says:

> I firmly believe that industry and the public are entitled to have investigations under Section 232 completed promptly. If the law requires a study in depth of each industry involved in each case where an industry is a major one or a highly complex one, and the information is not available, the task may be lengthy.

I fully concur with those observations. Since he is concerned about prompt action, my suggestion is that you might want to have this amended to provide for prompt action in an emergency type situation on a tentative basis pending the outcome of the full investigation. That would be the way I would react to trying to preserve the benefit of the full investigation, on the one hand, and, on the other hand, the real concern that the general has over the length of time it would take in an emergency type situation. So if you would have any suggestions, I think we would welcome them.

Mr. LINCOLN. Yes, we will examine this to see if there is anything useful that we can suggest.

Senator MILLER. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. I would like to ask you about this matter, General Lincoln.

With the situation that presently exists of a high world market price on oil largely because of the closure of the Suez Canal, the situation in Libya and the increase in tanker rates, if we substituted a tariff for a quota at this time what would this do to the price of oil for, let us say, consumers in New England at this time?

Mr. LINCOLN. I think, I must answer with a discursive answer rather than giving you a dollar per gallon or per barrel.

First, New England's concern right now is principally residual heating oil. In fact, the import of residual oil in District 1, East Coast, which includes New England, has been for all practical purposes freed from the quotas since 1966 and, hence, the price has been a world price. It has been lower than the price of residual oil used and made in other parts of the United States until the last few months, and now New England, the east coast, is paying the world price for oil which, by the way, is pretty hard to get hold of. It was $4.05 a barrel reported in Rotterdam the other day for low sulfur oil. And New England, in effect is paying this price. A quota does not have an impact on that price right now; the existing tariff does not have any impact on it either. This is a subject being most discussed.

The tanker price into the east coast of spot tankers, and increasingly of short term charter tankers, is high. At the margin of spot tanker prices, crude oil into New York from the Middle East is, I believe, now as high or higher than crude oil from the U.S. gulf.

On this I would like to turn to Mr. Bennett and ask him if he has a comment on it more expert than myself.

Mr. BENNETT. I think that is an accurate statement.

Mr. LINCOLN. So if you have the tariff, unless it were adjusted quickly, the tariff would be on top of the high tanker price.

The CHAIRMAN. Wouldn't that raise the price to consumers? In other words, wouldn't the tariff have to go on top of the imported price?

Mr. LINCOLN. It would tend in that direction. It would take time for the transition, turning on contracts. Again the element of contract comes into this, and some oil is being delivered on a long-term contract price. Before the full effect of one of these supply disruptions is felt, some time elapses.

If, as the Cabinet Task Force suggested, an initial tariff of $1.45 per barrel were in existence rather than the present quota system, the amount of the increase in price of oil would move overtime toward being approximately equivalent to the decrease we have experienced in the value of quota tickets. That decrease has been from $1.50 to something less than 50 cents (as recorded in Platt's Oilgram today, quota tickets were valued at $0.10–$0.20). In fact, if the cost of imported oil were such that quota tickets had no value, the increase in price of oil could conceivably exceed the decrease in quota ticket value which we have experienced today. Of course, the tariff could be changed to correspond to shifts in tanker or other prices—but in practice rapid or frequent changes present certain difficulties. It would be difficult to determine just when to change, and just what tariff level would be appropriate at a particular time.

As to the price of residual oil, which is for all practical purposes free from import controls along the east coast, that price is already determined by the world delivered residual oil price, and thus would be largely unaffected by crude oil tariff levels. It would tend toward raising the price, and it would also, as indicated in my long statement, would tend to, put leverage on the price, more leverage on the price of crude oil in the short run in the United States, used in the United States, than the quota system, in my opinion.

The CHAIRMAN. So instead of saving the consumers anything that tariff would have to be passed on to the consuming public and it would cost them something extra, would it not?

Mr. LINCOLN. Well, the tariff, such tariff, as would exist would go to the Treasury and the amount of it would be passed on to the consumer; yes.

The CHAIRMAN. Thank you very much.

We will meet here at 2:30, and Senator McIntyre will be the first witness.

(Whereupon, at 1 p.m., the committee recessed to reconvene at 2:30 p.m. the same day.)

AFTERNOON SESSION

The CHAIRMAN. Senator McIntyre, we are pleased to have you here with us, and we will be pleased to hear your statement, sir.

STATEMENT OF HON. THOMAS J. McINTYRE, U.S. SENATOR, FROM FROM THE STATE OF NEW HAMPSHIRE

Senator McINTYRE. Mr. Chairman and members of the committee, I fully appreciate the constraints of time that are hovering over this chamber, and so I have a brief statement that I would like to read.

First of all, I would like to congratulate the chairman that he has seen fit to convene these hearings, for the serious problem to which this bill addresses itself and the problems which it would create deserve the close attention of this distinguished committee.

In particular, I would invite the committee's attention to those provisions of the pending bill dealing with shoes, textiles, and oil.

Regarding shoes, I would like to point out that some of the statistics employed by the spokesmen for the Nixon administration in opposition to quotas on shoes are misleading in that they give a national picture which is not at all representative of the situation in States like New Hampshire.

In 1968, Mr. Chairman, the shoe and leather industry was the largest, single largest, manufacturing employer in the Granite State, employing some 20,536 people. By 1969 it was no longer the largest employer, and employment had dropped to only 18,466 and during those 2 years almost 10 percent of the shoe factories in my State closed, and I would point out, too, Mr. Chairman, that these factories are often the principal source of employment in their communities. By July of 1970, this year, shoe and leather employment had dropped to some 16,400.

Mr. Chairman, in almost every single case the principal reason for the loss of employment and the shutting down of plants has been the competition from imported shoes.

I want to make it clear that I do believe in free competition. But when that competition results in the shutting down of factories across our Nation, then I think that the Federal Government, whose foreign policies have encouraged that competition, has an obligation to step in and help the workers and their families who have been driven literally to the poorhouse.

We have sought many other forms of relief before turning to import quotas. At this time, the situation is desperate, and so are the shoeworkers of New Hampshire, and I hope this committee can act favorably to meet the needs of these men and their families.

Regarding textiles, Senator Hollings will be in here before the day is out, and I am certain that other witnesses like himself can effectively present the case for textiles. I merely add my voice to theirs.

As far as oil is concerned, the provisions of the proposed Trade Act of 1970 are, in my opinion, unnecessary, unwise, and most unfortunate. I refer to section 104 of the bill. Mr. Chairman, you can read through the entire majority report of the House Committee on Ways and Means, the purposes of the bill, a summary, the general description of the bill, the technical explanation of the bill, the changes in existing law made by the bill, and nowhere is there a single word explaining that section 104 of the bill is concerned with oil.

And yet I hope that this committee recognizes that section 104, because of its relationship with oil, may well be the single most controversial part of this legislation.

The oil import program which section 104 would freeze into a legislative state of rigor mortis, has totally failed to live up to its basic purpose, the preservation of our national security.

Some 2 weeks ago, the Subcommittee on Small Business was informed that the Department of Defense was 136 million gallons short of meeting its requirements for fuel oil in New England and the Middle Atlantic States. Earlier this year the Defense Fuel Supply Center issued an urgent appeal for fuel for vital Government installations. Defense contractors as well as other industries vital to our national security have been experiencing severe difficulties in obtaining fuel.

Clearly, the present energy policies of the Federal Government are not helping the national security. And, as this committee knows, my views on the undesirability of remaining on a quota system for oil are shared by such authorities on national security as the Secretary of Defense and the Secretary of State, both of whom subscribe to the majority views of the Cabinet Task Force on Oil Import Control.

Mr. Chairman, there is no need for section 104. The White House has stated that it intends to continue the present quota system for oil. This section of the trade bill could, however, bring forth the most unfortunate circumstances if it required future Presidents to restrict their flexibility in dealing with changes in the petroleum situation and the needs of the national security.

Thank you very much, Mr. Chairman.

(Senator McIntyre's prepared statement follows:)

Statement of Thomas J. McIntyre, U.S. Senator From New Hampshire, Before the Committee on Finance

Mr. Chairman, I appreciate very much the opportunity to come before you today and speak about certain of the provisions in the trade legislation now before this Committee.

I was requested to make my statement today very brief—in recognition of the pressure of time created by the short notice on which these hearings were called and the brief period—two days—allotted to legislation of such national and international significance. Accordingly, I shall be brief.

First of all, I would like to express my happiness that the Chairman has convened these hearings. The serious problems to which this bill addresses itself, and the problems which it could create, deserve the close attention of this distinguished Committee. In particular, I would invite the Committee's attention to those provisions of the pending bill dealing with shoes, textiles, and oil.

Regarding shoes, I would like to point out that some of the statistics employed by spokesmen for the Nixon Administration in opposition to quotas on shoes are misleading, in that they give a national picture which is not at all representative of the situation in states like New Hampshire.

In 1968, the shoe and leather industry was the single largest manufacturing employer in New Hampshire, employing 20,536 people. By 1969, it was no longer the largest employer, and employment had dropped to 18,466. During those two years, almost ten percent of the shoe factories in my state had closed. And I would point out that these factories are often the principal source of employment in their communities.

By July of 1970, shoe and leather employment had dropped to 16,400.

And, Mr. Chairman, in almost every single case, the principal reason for the loss of employment and the shutting down of plants has been the competition from imported shoes.

I want to make it clear that I do believe in free competition. But when that competition results in the shutting down of factories across our nation, then I think that the federal government whose foreign policies have encouraged that competition has an obligation to step in and help the workers and families who have been driven to the poorhouse. We have sought many other forms of relief before turning to import quotas. At this time, the situation is desperate, and so are the shoe workers of New Hampshire. I hope that this Committee can act favorably to meet the needs of these men and their families.

Regarding textiles, I am certain that other witnesses can effectively present the case for protection. I merely add my voice to theirs.

So far as oil is concerned, the provisions of the proposed Trade Act of 1970 are in my opinion, unnecessary, unwise and most unfortunate. I refer to Section 104 of the bill.

You know, you can read through the entire majority report of the House Committee on Ways and Means--the purposes of the bill, a summary, the general description of the bill, the technical explanation of the bill, the changes in existing law made by the bill, nowhere is there a single word explaining that Section 104 of the bill is concerned with oil. And yet, I hope that this committee recognizes that Section 104—because of its relationship with oil—may well be the single most controversial part of this legislation.

The oil import program which Section 104 would freeze into a legislative state of *rigor mortis* has totally failed to live up to its basic purpose—the preservation of our national security.

Some two weeks ago, the Subcommittee on Small Business was informed that the Department of Defense was 136 million gallons short of meeting its requirements for fuel oil in New England and the Middle Atlantic states. Earlier this year, the Defense Fuel Supply Center issued an urgent appeal for fuel for "vital" government installations.

And defense contractors, as well as other industries vital to our national security, have been experiencing severe difficulties in obtaining fuel.

Clearly the present energy policies of the federal government are not helping the national security.

And, as the Committee knows, my views on the undesirability of remaining on a quota system for oil are shared by such authorities on the national security as the Secretary of Defense and the Secretary of State, both of whom subscribed to the majority views of the Cabinet Task Force on Oil Import Control.

Mr. Chairman, there is no need for Section 104. The White House has stated that it intends to continue the present quota system for oil. This Section of the Trade Bill could, however, bring forth the most unfortunate consequences, if it required future Presidents to restrict their flexibility in dealing with changes in the petroleum situation and the needs of the national security.

The CHAIRMAN. Any questions?

Senator HANSEN. If I may, Mr. Chairman, I do have a question.

Senator McIntyre, first of all, let me say that I have been very pleased, as you know, to join with you in cosponsoring some of the legislation that you have proposed which would bring relief to your great State of New Hampshire.

I share concern for my employees in Wyoming, I mean for the employees of industry in my State of Wyoming, just as I know you do in New Hampshire, and I compliment you on the efforts that you have taken.

You speak about the oil situation in New England. I would like, if I may, Mr. Chairman, to ask that there be included in the record at this point a news release from the Office of Emergency Preparedness. Let me just summarize essentially what Director George A. Lincoln, Director of the Office of Emergency Preparedness, and Chairman of the new Board says.

He says:

The Joint Board has established a regional office in Boston under the chairmanship of the local regional director of the OEM, which regional membership parallels that of the Joint Board.

He goes on to say that approximately 40 of the New England supply centers reporting thus far to the regional board have already reported. Last Tuesday, for example, an arrangement was completed with Gulf to provide 500,000 barrels of low-sulfur residual oil for the city of Boston which was nearly out of oil for some activities.

The Federal Power Commission estimates that New England is in better condition this year, both with regard to gas supply and supply of fuel for utilities, than last year.

A greater supply of No. 2 home heating oil is assured, and inventories on the east coast for this product are considerably above last year's level.

If I may, I would like to ask that the entire statement be submitted.

(The news release and the statement referred to follow. Hearing continues on p. 299.)

ENERGY BOARD CHAIRMAN SEES IMPROVED WINTER FUEL SITUATION

Fuel supply prospects for the coming winter heating season are vastly improved, according to the Chairman of the Joint Board charged by the President wtih monitoring the nation's energy situation. George A. Lincoln, Director of the Office of Emergency Preparedness and Chairman of the new Board, said there has been a heartening initial response following last week's statement on the winter energy situation. At that time Director Lincoln and Paul W. McCracken, Chairman of the Council of Economic Advisers, called upon petroleum and other industries to increase the supply of fuels.

Lincoln noted today that a number of major oil companies have already announced improvements in the supply of residual oil, which is the principal energy fuel likely to be in short supply this winter. These include additional imports of 30 million barrels by Asiatic (Shell), production increases of 60,000 barrels a day by Humble and of 10,000 to 20,000 barrels a day by Gulf, and provision for the next month at least of 25,000 to 30,000 barrels by Mobile from their refinery in Texas which had been damaged by Hurricane Celia. This total exceeds 100,000 barrels per day. Lincoln also noted that these announcements constitute only the initial industry response to avert a possible shortage of residual fuel, and that he anticipated further announcements as these and other companies evaluate their production capabilities.

The members of the Joint Board, consisting of the Director of the Office of Emergency Preparedness, the Secretaries of Interior and Commerce, and the Chairmen of the Council of Economic Advisers, the Council on Environmental Quality, the Interstate Commerce Commission, and the Federal Power Commission, have consulted with industry and received encouraging assurances concerning fuel supplies, particularly for New England, where the experience of last year's cold winter undoubtedly accounts for at least part of the expressions of concern from that area.

The Joint Board has established a Federal Regional Office in Boston under the chairmanship of the local regional director of the Office of Emergency Preparedness, with regional membership paralleling that of the Joint Board. The mission of this office includes the systematic investigation of all reports of fuel shortages and monitoring assistance in solving any real problems that develop.

Director Lincoln commented that practically all of the approximately 40 supply problems in New England reported thus far to the Regional Board had already been resolved. Last Tuesday, for example, an arrangement was completed with Gulf to provide 500,000 barrels of low sulfur residual oil for the City of Boston, which was very nearly out of oil for some activities. The Federal Power Commission estimates that New England is in better condition this year both with regard to gas supply and the supply of fuel for utilities than last year. A greater supply of No. 2 home heating oil is assured, and inventories on the East Coast for this product are considerably above last year's levels.

Director Lincoln commented that the Joint Board's monitoring and coordinating activities are still not complete. A close check on the tanker situation is being undertaken, and consultations with industry designed to make fuel available to potential short-supply areas before a fuel crisis can occur will continue.

Lincoln also commented that he had written to the governors of every state asking their cooperation with the efforts of the Federal Government, and that the action of Governor Sargent of Massachusetts in moving to set up community energy committees is a helpful measure. He said that as of now he did not believe the current estimates indicated a crisis situation for the winter. However, there are likely to be tight fuel situations in some areas and it is only prudent to take reasonable preparedness actions early.

NOTE TO CORRESPONDENTS

An addition to this morning's Office of Emergency Preparedness press release on the winter fuel situation was announced by OEP. Besides the increased residual fuel production figures in the release today, two other major U.S. oil companies have increased their production: Texaco, with a 50,000-barrel-per-day increase and Standard of California with another 15,000 barrels per day. Total increased production now exceeds 150,000 barrels per day.

Copies of the morning OEP release are available at the National Press Club and Treasury racks. Contact is John Coleman, OEP Information Director 395-5678.

STATEMENT OF GEORGE A. LINCOLN, DIRECTOR, OFFICE OF EMERGENCY PREPAREDNESS, BEFORE THE SUBCOMMITTEE ON SPECIAL SMALL BUSINESS PROBLEMS, HOUSE SELECT COMMITTEE ON SMALL BUSINESS, OCTOBER 8, 1970

Mr. Chairman and Other Gentlemen of this Committee, I am honored to be asked to appear before you this morning. I am George A. Lincoln, Director of the Office of Emergency Preparedness in the Executive Office of the President.

On February 20, 1970, the President changed the management system of the Oil Import Program. He established, under my chairmanship, the Oil Policy Committee, which includes the Secretaries of State, the Treasury, Defense, the Interior, and Commerce; the Attorney General; and the Chairman of the Council of Economic Advisers. While most day-to-day administrative functions continue to be performed by the Oil Import Administration of the Department of the Interior, the policy direction, coordination, and surveillance of the program will be provided by the Director of the Office of Emergency Preparedness, acting with the advice of the Oil Policy Committee. I was also designated as Chairman of the Joint Board established by the President on September 29 to monitor the fuel supply and transportation situation during the coming heating season and to coordinate the efforts of Federal agencies in dealing with fuel supply and transportation for that heating season.

I know that this is the third day of hearings by your Committee on the fuel and energy situation. Those of us in the executive branch concerned with that situation have certainly been following these hearings closely and are grateful for the information and suggestions they provide concerning both short-term actions and longer-term policies. These policies are being studied by a committee of the Domestic Council chaired by Dr. McCracken, Chairman of the Council of Economic Advisers.

You may not have obtained copies of the Presidential actions establishing the organization I have described. So I here offer for your information:

(a) Presidential press statement of February 20, 1970, on oil policy.

(b) Statement of August 6, 1970, on Domestic Council Energy Committee.

(c) Statement of September 29, 1970, by the Chairman of CEA and the Director of OEP on the energy situation.

I know that you have discussed the short-term energy outlook in detail during the past two days, so I shall not review it in this statement, other than to refer to the opening paragraphs of the statement of September 29 which I have just placed in the record. Rather, let me deal briefly with the relationship of the Oil Import Program and the Oil Committee to the short-term energy situation.

The Oil Import Program exists for the purpose of furthering our national security. Because of this, its operation in normal times does limit imports of crude oil and its products into the United States. In fact, however—and I underline this point—*the operation of the Oil Import Program is not, under current circumstances, acting to limit the actual imports of overseas crude oil into the United States.* The disruption of the world oil situation (specifically the closing of a pipeline through Syria and cutbacks in production by Libya) has resulted in a temporary reduction of overseas imports to a volume significantly below that permitted by the quota. Fortunately, we have had in existence a reserve U.S. production capacity which is meeting the need for the quantity of crude oil required.

As to overland imports, last March we did place on Canada a formal quota which was significantly above the amounts provided for import in the voluntary agreement. We have taken four actions which moderate controls on Canadian imports and also improve the management of the Oil Import Program.

(a) We have placed awards by the Oil Import Appeals Board for exceptional hardship outside the Canadian quota but within the overall quota.

(b) Because overseas quota tickets may be hard to exchange in the current international situation, we have enabled those ticket holders who are recipients of Canadian oil to apply these tickets against "hardship" allocations by the Appeals Board.

(c) We have exempted overland importation of Canadian natural gas liquids from the Canadian crude-oil quota, thereby making room under that quota for additional imports of crude oil.

(d) We have permitted this importation of Canadian crude oil and products along inland waterways.

In the current situation, I believe that the Oil Import Program is no significant bar to the provision of crude oil to meet our energy needs this winter. Rather, its effect in the past now leaves us less captive to the current disruption, including high tanker prices and shortages of tankers, than we otherwise would be.

Turning to products of crude oil, the two products most likely to be in a tight supply situation, for energy fuels, are residual oil and No. 2 heating oil.

Here I wish to underline two points.

First, *as to No. 2 heating oil, the studies of the National Petroleum Council conclude that the supply this winter will be adequate.* Nevertheless, we are continuing the experimental program next year of permitting import of an average of 40,000 barrels per day from the Western Hemisphere into the East Coast. And to give further insurance for this heating season, we are requiring that all of the first half of the 1971 quota be imported during that heating season—the first three months of 1971.

Second, *the Oil Import Program does not restrict, or affect in any way, the import of residual heating oil into New England and the East Coast.* Such import has been quota-free, for all practical purposes, since 1966. New England and the East Coast have since that time become over 93 percent dependent on foreign sources for residual oil. Hence this part of our country is for all intents and purposes part of the world market for residual oil—and is therefore now paying the price for delivery within that international market.

We are now changing the proclamation to facilitate burning of imported crude oil for fuel—a course of action that up to now was so uneconomical that it has, to the best of my knowledge, rarerly been considered. The course of action amounts to using all, or as much as possible, of the barrel of crude oil as "residual heating oil."

In summary, on the oil import program, I repeat my previous conclusion that it now does not significantly affect our energy fuel situation for the coming winter. That situation must be handled by producers—labor and industry—and by consumers through reasonable conservation, and by coordinated guidance of the responsible Federal agencies. The Joint Board established by the President is an instrument of such coordination.

There is likely to be a tight fuel situation in some parts of the country this winter. If the disruption of the international oil situation increases, the situation will be tighter; if disruption decreases, the situation will be eased somewhat. Hence the prudent course is to prepare to take some special actions. One of them, in the area of coal supply, has already been taken by doubling demurrage charges.

The pattern of interagency coordination, now directed by the President, has been informally in being during the summer to guard against, and handle, the danger of brownouts and blackouts. Except for a few locations, the winter problem, when one exists, is a problem of fuel supply rather than generating capacity.

The operating agencies of the Federal Government—the Department of the Interior, the Department of Commerce, the Federal Power Commission, and the Interstate Commerce Commission—are members of the Joint Board. So also is the Council on Environmental Quality, which provides advice concerning our environmental programs. The CEA Chairman advises the Board on the interests of our economy as a whole; since he is also Chairman of the Domestic Council study on longer-range energy problems, this provides for an interlock of short-term operations with longer-term policy development.

The Joint Board operations are already underway. Monitoring and coordination actions will be shaped to the nature of the problems rather than attempting to devise any standardized procedure for consultation with industry and surveys of the supply requirements situation.

There has been a considerable number of expressions of concern from New England. New England is probably most dependent on foreign imports affected by the international oil situation. Hence we have established a Region 1 Field Board on Fuel and Energy Problems for the Northeast, with regional membership paralleling that of the Joint Board, to give us field assistance in monitoring the situation and coordinating any action needed. (I submit for the record OEP Circular 1200.19, establishing the Region 1 Board.) In general, however, I believe we can monitor the needed actions which are going to be the actions of industry in great part, and coordinate Federal action through our regular arrangements here in Washington.

In the statement made by Chairman McCracken and myself on September 29, we stated, and I quote: "We call upon the petroleum industry, the coal industry, the railroad industry and others, in the light of the national need, to increase the supply of fuels, as is made feasible by economic factors. We also ask the cooperation of the coal miners, the railroad workers and other fuel and transportation workers to help avert a fuel shortage."

That which the Federal Government can do in this fuel situation is very much dependent on the intelligent cooperation and effort of the other portions of our great national community.

Since that statement by Dr. McCracken and myself from which I quoted, we have had a very heartening initial response by the petroleum industry. I am releasing this morning at 11:00 am a press statement, an advance copy of which was furnished to each member of this Committee, and which I would like to enter in the record, which summarizes the results achieved thus far. I call attention to the fact that a number of major oil producers have already publicly announced their intention to produce increased amounts of residual fuel for this winter, and that the total of these increases amounts to more than 100,000 barrels per day of additional residual fuel. I stress that this is only the initial industry response, and that further announcements are expected as the oil companies continue to examine their production capabilities.

As to the area of the country expressing most concern, our Federal Regional Board in Boston, working with State and local governments and industry, has eliminated a good portion of the alarms, I believe. The Regional Office has investigated forty or so specific reports of fuel problems, and the Chairman of the Regional Office informs me that all but two of these have been satisfactorily resolved. One action has been the arrangement, on the day before yesterday, for the provision of 500,000 barrels of low-sulfur residual oil to the city of Boston, on terms, so I am informed by the Chairman of the Federal Regional Board, acceptable to the city.

Gentlemen, the events in the energy field during the past six months have impressed upon me how sensitive our economy is to relatively small, even undramatic, changes in the complex energy supply and demand situation. These changes are sometimes hard to foresee; most persons do not even notice the change in the current disruption of delivery of oil across the Mediterranean—only 3% of the world's oil—for it is not so dramatic as a military interruption. But a political or a political-economic interruption can be just as effective in restricting supply and raising prices. The argument for adequate insurance is there.

I have brought with me members of my staff. We will do our best to answer your questions and at the same time also seek your counsel in this matter of energy supply—a problem likely to continue for at least several years.

Senator HANSEN. The question I would like to ask the distinguished Senator from New Hampshire, our colleague, is this: There have been, as I am certain the Senator knows, no restrictions on the import of residual fuel oil on the east coast for at least 5 years; is that not right?

Senator McINTYRE. I do not know if it is precisely 5 years, and you are pointing out that the residual problem is not a problem that has come under the import quota programs; that is correct.

Senator HANSEN. My point is that it is because of the fact that there have been no quotas that the emergency developed in New England. Had there been quotas on that fuel oil, I think that some time ago our domestic oil industry would have been supplying a major part of that market, and we would not have gotten caught as we did there when the main pipeline in Syria was cut almost a year ago, when the Suez was closed, and tanker rates skyrocketed.

As a matter of fact, no one wants to buy oil from the Middle East now because it is considerably higher, as the Senator knows, than our domestically produced oil, and, I submit that our mandatory oil import program has served very well our national security; that if it had not been for that program we could really be in a bind now if we were dependent, as many people were recommending, and as the majority report of the President's Task Force Commission recommended, if we had abandoned that program and had gone to a tariff program and had closed off all of the marginal wells in this country, which account for about 35 percent of our reserves in the United States, we would be in deep trouble.

But fortunately that was not done. Fortunately, the domestic industry did receive the encouragement necessary and it has stepped in and filled the breach.

So I would have to make a distasteful but, nevertheless, very sincere objection to the remarks of my good friend from New Hampshire.

Senator McINTYRE. Well, Mr. Chairman, that was a long question, and I would simply say that the thrust of my remarks here, Mr. Chairman, is not concerned with the ongoing contest that the distinguished Senator from Wyoming and I have on the question of the mandatory oil import quota program.

What I am saying is, don't for the love of goodness, lock the program into legislation. Allow it to remain in its flexible state so that President Nixon and succeeding Presidents can deal with this as the situation needs to be dealt with.

Senator HANSEN. You would like to have——

Senator McINTYRE. If I may.

Senator HANSEN. I beg your pardon.

Senator McIntyre. If this bill is passed in its present form, it puts the quota system into mandatory legislative language, locks it up in the hearts and minds of 535 men.

Now, we would like up in New England to see this mandatory oil import program phased out, but I am not here to argue that today. I am here to ask you gentlemen to knock section 104 out of this bill and just simply, in passing, because I do not want to take too much of your time, we feel in New England that residual oil problems with skyrocketing prices, I think they have more than doubled since last year, the residual is still, even though it is out from under the quota program, is still affected by the existence of a quota program because if we could bring in crude, more crude, than we now do, then we could have more residual.

Senator Hansen. If we could bring in crude, we would not have a problem. The problem is that Venezuela and Canada, two of our important foreign sources, are bringing in about all they can bring in. Their wells are pumping at practically full capacity now.

It is all well and good to say if we could bring it in, and I wish we could. But if the Senator has any suggestions as to where we would bring it in from, I would be most interested to hear them.

Senator McIntyre. Well, it is my understanding that Canadian crude oil is available right now and could be brought in.

Now, you may be right, sir, about the Venezuela pumps at the well going at top speed. But down in Puerto Rico there are refineries sitting down there that could be helping us out.

I do not think, Mr. Chairman, we need to discuss the ongoing contest on the quota program. What I am simply saying is, section 104 does not belong in this bill, and I think the good members of this committee really know that.

The Chairman. Well, Senator, if you had a tariff program as of now, you would have to pay more for your oil than you are paying now. Why would you want to raise the price for your consumers up in New England? I do not understand that.

Senator McIntyre. What you are saying is, you want to argue about the tariff system.

The Chairman. General Lincoln sat where you are sitting in this morning's session and he was asked if you put a tariff on oil, and that is what the House bill precludes, but if you substitute a tariff or a quota would not that make New England pay more for oil?

Senator McIntyre. We do not think so.

The Chairman. Well, he was one of those who recommended it some time ago when it was proposed to be part of a scheme to bring the price down. He said as of now, yes, it would make the oil, it would tend to make it, cost you more. When the international price delivered here is above the domestic price already, how can it do anything but raise the price and the cost to your consumers if you put a tariff on top of the price that is already being charged? Wouldn't they pass it on to your consumers? That is what they would do.

Senator McIntyre. If that situation just existed, you are probably correct.

In testimony before my committee, Dr. Wilson Laird, who is an important figure in the oil policy program, stated that to his knowledge none of this high-priced crude oil had landed on our east coast. None of this world price oil, which is up considerably, because of the Libyan situation, that is easing now, and the pipeline in Syria, none of this high-priced crude has come in yet.

But I think rather than take the time of this committee to argue about the oil import quota program, I want to settle on the fact that we all recognize that oil is a basic industry, it produces 75 percent of the energy of this country, it is a very important industry. We think that the administration, whether it be of President Nixon or President whoever may be in the future, should have the flexibility to meet the ongoing situations as they occur, and not be limited by this legislation.

The CHAIRMAN. Well you say that the Secretary of State and the Secretary of Defense agree with your views. Here is General Lincoln's memorandum of August 13 and I will put it in the record at this point. I do not think there has been any change since that time. The circumstances have not changed since then. He said, "Because of these factors," having to do with the difficulty of obtaining world market oil and the higher price for it when you do get it, he said, "The oil policy committee," and that includes those two Cabinet members, "concurs with my judgment that we discontinue consideration of moving to a tariff system of control but rather continue with our efforts to improve the current program, and I provide this advise to you now since planning for the next oil allocation year must soon get underway."

(The memorandum referred to follows:)

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF EMERGENCY PREPAREDNESS,
Washington, D.C., August 13, 1970.

The PRESIDENT,
The White House,
Washington, D.C.

DEAR MR. PRESIDENT: Approximately six months ago you established a new management system for the Oil Import Program. That system has been proceeding, in accordance with your instructions, with interim actions directed to improving the program. Actions have included proclamation changes by you on my recommendation and regulatory changes by the Secretary of the Interior with my concurrence. These actions have been taken with the advice of the Oil Policy Committee.

The greater part of historical allocations stemming from the voluntary program which ended in 1959 will be eliminated at the end of the year. The anomaly of shipment of Mexican oil imports out of, and then back into, the United States will also be eliminated. A formal regulatory system has been instituted for Canadian imports at a considerably expanded level of imports over 1969.

With the advice of the Oil Policy Committee that the action will not adversely affect national security, the level of foreign imports of crude oil has been raised for 1970. A program of importation of No. 2 heating oil has been instituted for the East Coast. The Oil Import Appeals Board has been given authority to allow increased importation of residual fuel oil for the mid-continent area to alleviate hardship and reduce pollution, and to permit increased importation of asphalt for the East Coast.

Arrangements have been made for the Oil Import Appeals Board to provide relief for hardship cases, by authorizing imports of crude oil from Canada above the level of the Canadian quota but within the overall quota. Also, a recent action will permit those refineries which receive Canadian allocations and which prove a hardship situation to use their offshore quota allocations for imports from Canada.

The Oil Policy Committee has concurred in my recommending to you that exchange of quota allocations be permitted through sale of quota tickets or of imported oil. The need for this reform, which strengthens the free market aspect of the program, has been emphasized by the current disruption in the international oil and tanker markets.

The type of international disruption mentioned above raises a potential management problem of major proportions. Other problems have become more evident since last February when you established the new management system for the oil import program. These include the increasingly apparent effect of the environmental programs and the effect of the coal and gas supply situation on the requirements for oil and on the composition of these requirements. Undoubtedly, these factors will be considered in the study of the national energy situation which you have recently directed the Domestic Council to undertake.

Six months ago, I joined with other members of the Cabinet Task Force in recommending that we should proceed at the beginning of the next year to a transition to a tariff system. I did not consider that this change would necessarily result in any significant decrease in costs to the consumer. I hoped the system, while continuing to provide the needed support to national security, could provide a freer market for oil, and be made simpler and more easily understood.

Recent developments have increased misgivings about moving to a tariff system at this time and about a tariff system as a feasible method of controlling oil imports.

The recent interruption in the flow of oil to Europe, while comparatively small in quantity, has caused significant disruption of the international oil situation.

Two other considerations are at least as important to me. First, it appears that our country will be in a transitional situation for some time with regard to oil, if only because of the uncertainty as to the date Alaskan oil will be available and the effects of the environmental programs. Secondly, new estimates indicate we have a more severe problem than we estimated six months ago in preventing a unwise dependence on relatively insecure sources of supply by even as early as 1975.

The individual members of the Oil Policy Committee are impressed in varying ways by each of the three considerations mentioned above. All of us recognize that the method of control is a means to the national security end, which includes limiting U.S. dependence.

Because of these factors, the Oil Policy Committee concurs with my judgment that we discontinue consideration of moving to a tariff system of control, but rather continue with our efforts to improve the current program. I provide this advice to you now since planning for the next oil allocation year must soon get under way.

I would be remiss if I did not express to you my concern about the long run and even mid-term outlook for assuring the achievement of the national security objectives on which the oil import program is based. From a management viewpoint the program faces the danger of being gravely weakened by special actions and exceptions urged by both critics and supporters of the current system. More importantly, we also face the growing danger of not having adequate supplies from reasonably secure sources—a vast problem which cannot be separated from our overall energy policy. National security must be a central consideration in working out that overall policy.

We look to the further definition of policy, which you are now seeking, in the overall energy area to give a more reliable base for our national security oil import program.

Respectfully,

G. A. LINCOLN, *Director*.

Senator McINTYRE. Well, Mr. Chairman, there have been so many oil policy committees that I am not sure what is now comprising the Oil Policy Committee that General Lincoln has been given the chairmanship of. I am aware that he has changed his opinion. He was one of the majority of the task force report. I understand that he now says if he had to do it over again he would have decided with the minority, but I am not certain, Mr. Chairman, that the Secretary of Defense and the Secretary of State are members of this Oil Policy Committee at the present time.

The CHAIRMAN. They are members.

Senator, if you feel it is essential to protect the footwear industry, which you have how many thousand jobs in New Hampshire?

Senator McINTYRE. At the present time about 16,500.

The CHAIRMAN. Well, can you understand why someone from a State like Louisiana, where we have 74,000 jobs depending on the oil industry, would regard that industry as being just as important to the economy of the Nation as you feel those 16,000 jobs are important to New Hampshire?

Senator McINTYRE. Well, now, Mr. Chairman, of course I realize that you are protecting the interests of your constituents.

When we compare the shoe industry with the oil industry, the shoe industry is a highly labor-intensive industry. You cannot say that about oil. Oil is a capital-intensive industry. It is just that so far as the shoeworker of New Hampshire is concerned, I find it pretty hard talking to him about the preferences and everything else that the oil industry is enjoying today, and the shoeworkers in New Hampshire have nothing, and all we want is a small piece of the action, as you might say.

We think the oil industry does pretty well with its depletion allowance, its intangible drilling deductions, with its deductibility of foreign taxes, so-called, with this mandatory oil import quota program, with prorationing down in Texas making sure there is only a certain amount of oil taken out, so all I am doing here is battling here for the shoeworkers.

Now, you continue to fight for your oil interests, and I will continue to fight for my shoeworkers. But I hope out of your generous bounty you begin to see it our way a little.

The CHAIRMAN. My only thought about the matter, Senator, is that foreign producers are in position to put a lot of us out of business, including your shoe industry, and representing an oil-producing State, I recognize that quite a few people are going to have to go out of business and quite a few jobs are going to have to be lost.

But I personally expect to try to have some sympathetic consideration for those who share the plight of the oil industry. We have watched others take over 25 percent of our market, and they could take a lot more of it if you did not have some program to keep the oil industry in business. But I do not see very well how you expect to have it both ways, to come in here and say, "Well, here the shoe industry must be preserved, but the oil industry should go."

That might sound fine for a shoe-producing State, but how do you expect to appeal to an oil-producing State with that kind of argument?

Senator McINTYRE. All you have to do is read about the oil industry. It is exceeding for 1971–72, exceeding in growth the average of the industries in America.

The shoe industry is a declining industry. The shoe industry gets no help from the Government. The oil industry gets a lot of help, so I do not think you have to go much farther than that.

When I come in here to ask for some sort of a quota protection on shoes, I am only asking for a part of what you fellows already have. I do not want to take anything away from you. I just want you to be fair to our part of the country.

The CHAIRMAN. Well, Senator, the profits after taxes in the oil industry are less than all manufacturing, and I would feel the same thing is true about the shoe industry, if it is true, as you say.

Frankly, you remind me a little bit of the fellow who came in speaking for the Farmers Union last week, Friday, who said, "Now, I speak for a group of farmers and we are against any quota protection or any tariff protection for anybody that they are not getting now except for us."

Now, he said, "We have discovered there are some dairy imports coming into this country where they are getting them in violation of what we believe to be the clear intent of Congress to the contrary. We want you to tighten up on that law to be sure that these dairy products cannot come in."

Now, I can understand that argument. But it is sort of difficult to persuade persons who do not have that particular interest and who have some other industry that is more vital to this State, to see it your way when you do not see it their way or see their problem, at least.

Senator McIntyre. Mr. Chairman, I would hope you are not saying what I am pleading for here is paralleled by the example you just gave of the dairy interests, the farmer interests. What protection has the shoe industry had? They have nothing. That is all I am saying. And then, believe me, gentlemen, the argument should not be heard today about whether we should have a mandatory oil quota program or not. The argument that I am advancing is simply that you should not put it in this legislation.

The Chairman. Well, Senator, you came in here with a statement which, if I do say, for shoes, is a very persuasive statement, but I do not see why you put in there that the oil industry ought to be liquidated.

If I were you, I would speak for mine without advocating the other fellow to be put out of business. I was thinking that maybe I would get his vote if I would just leave him out of this statement. [Laughter.]

Senator McIntyre. I understand what you are talking about, but I have to state the case as I see it.

The Chairman. Yes.

Senator McIntyre. And I would just remind the chairman and the committee members here that if we, that if the shoe workers of this country, only had a small part of the protection afforded by the Government policies to the oil industry, and you will notice that I do not get up here and try to compare the industries—we realize how important oil is, we realize how closely it should be under the aegis of the administration with its flexibility able to meet the situations.

All I am saying is our industry is dying, and we are asking for some help, and we think we should get it, and we think we should take this oil import quota thing out of this legislation and let us battle for our tariffs or whatever we want to in a more flexible situation than if locking it into the minds and hearts and the vested interests of 535 legislators. Then it is goodbye.

Senator Hansen. Mr. Chairman, would you yield for just a moment?

The Chairman. I am through, Senator.

Senator Hansen. I happen to have some figures here, Senator McIntyre, which show the sales and net profits of the nine publicly owned footwear manufacturers for the years 1958 through 1969.

(The figures referred to follow:)

SALES AND NET PROFITS OF 9 PUBLICLY OWNED FOOTWEAR MANUFACTURERS, 1958-69

[Dollar amounts in millions]

Year	Net income	Net sales	Net income—net sales (percent)	Net worth	Net income—net worth (percent)
Industry—S:					
1958	$27.6	$881.9	3.1	$295.85	9.3
1959	34.0	997.6	3.4	312.05	10.9
1960	33.4	1,133.2	2.9	362.35	9.2
1961	19.8	1,142.2	1.7	360.52	5.5
1962	38.1	1,253.1	3.0	384.63	9.9
1963	32.3	1,266.4	2.5	402.63	8.0
1964	46.6	1,331.9	3.5	408.81	11.4
1965	53.7	1,450.7	3.7	426.40	12.6
1966	64.8	1,699.0	3.8	485.62	13.3
1967	72.8	1,859.4	3.9	539.18	13.5
1968	87.2	2,179.5	4.0	580.40	15.0
1969	86.4	2,377.0	3.6	[1] 548.84	15.7
Brown Shoe Co.:					
1958	8.5	239.9	3.5	67.35	12.6
1959	11.6	276.5	4.2	75.35	15.4
1960	11.1	295.8	3.7	82.54	13.4
1961	10.5	297.9	3.5	88.63	11.9
1962	12.9	323.6	4.0	96.47	13.4
1963	12.4	316.9	3.9	109.09	11.4
1964	12.4	247.4	5.0	97.36	12.8
1965	14.3	265.4	5.4	99.65	14.4
1966	17.1	300.6	5.7	109.90	15.6
1967	19.0	326.7	5.8	120.65	15.8
1968	20.9	375.2	5.6	129.80	16.1
1969	16.3	395.0	4.1	143.55	11.4
Endicott Johnson Corp.:					
1958	2.33	134.6	1.7	66.43	3.5
1959	2.52	146.1	1.7	67.36	3.7
1960	1.76—	141.5	1.1—	64.01	2.6—
1961	12.22—	133.0	9.1—	51.50	23.6—
1962	.52	129.3	.5	52.45	1.2
1963	4.27—	118.4	3.5—	49.37	8.5—
1964	1.07	127.1	.8	50.38	2.1
1965	1.11	129.5	.9	50.13	2.2
1966	2.21	145.4	1.5	52.82	4.2
1967	1.54	140.9	1.1	54.88	2.8
1968	1.28	174.0	.7	56.11	2.3
1969	.23	160.0	.1	49.19	.5
Green Shoe Mfg.:					
1958	1.48	19.6	7.6	([3])	( )
1959	1.70	21.8	7.8	([3])	([3])
1960	1.75	23.4	7.5	9.92	17.7
1961	1.86	23.5	7.9	10.62	17.5
1962	2.11	26.8	7.9	12.22	17.3
1963	1.91	26.3	7.3	12.02	15.9
1964	2.23	30.1	7.4	12.15	18.4
1965	2.51	34.1	7.4	13.34	18.8
1966	2.56	44.0	5.8	16.84	15.2
1967	2.40	50.7	4.7	18.85	12.7
1968	3.49	43.5	8.0	19.50	17.9
1969	2.78	43.4	6.4	20.63	13.5
Interco Inc.:					
1958	7.54	244.3	3.1	102.56	7.4
1959	9.21	283.3	3.3	106.76	8.6
1960	8.87	296.5	3.0	109.46	8.1
1961	5.19	294.3	1.8	108.05	4.8
1962	7.07	303.2	2.3	110.00	6.4
1963	5.49	295.6	1.9	109.72	5.0
1964	8.44	345.4	2.4	116.39	7.3
1965	10.88	391.9	2.8	120.30	9.0
1966	14.60	469.1	3.1	136.81	10.7
1967	18.63	536.2	3.5	159.39	11.7
1968	25.09	669.5	3.7	192.52	13.0
1969	25.42	706.1	3.6	290.74	12.1
Melville Shoe Corp.:					
1958	5.49	136.4	4.0	([3])	([3])
1959	6.16	151.7	4.1	([3])	([3])
1960	5.98	161.6	3.7	37.56	15.9
1961	5.99	165.9	3.6	38.36	15.6
1962	4.77	176.4	2.7	39.20	12.2
1963	4.81	182.4	2.6	39.64	12.1
1964	7.11	195.2	3.6	43.56	16.3
1965	8.42	203.5	4.1	47.02	17.9
1966	11.19	234.3	4.8	52.20	21.4
1967	14.37	258.8	5.6	59.53	24.1
1968	16.23	293.0	5.5	69.00	23.5
1969	19.05	362.5	5.3	([3])	([3])

SALES AND NET PROFITS OF 9 PUBLICLY OWNED FOOTWEAR MANUFACTURERS, 1958-69—Continued

[Dollar amounts in millions]

Year	Net income	Net sales	Net income—net sales (percent)	Net worth	Net income—net worth (percent)
Shoe Corp. of America:					
1958	2.27	107.1	2.1	24.03	9.4
1959	2.78	118.2	2.4	25.76	10.8
1960	2.50	126.7	2.0	27.15	9.2
1961	2.40	130.0	1.8	28.52	8.4
1962	2.50	165.9	1.5	29.95	8.3
1963	2.37	177.9	1.3	30.84	7.7
1964	3.11	209.2	1.5	28.82	10.8
1965	3.49	235.0	1.5	29.55	11.8
1966	2.94	257.7	1.1	33.33	8.8
1967	3.56	264.1	1.3	35.23	10.1
1968	4.44	271.1	1.6	38.01	11.7
1969	5.54	281.0	2.0	(3)	(3)
U.S. Shoe Corp.:					
1958	(3)	(3)	(3)	(3)	(3)
1959	(3)	(3)	(3)	(3)	(3)
1960	3.07	51.4	6.0	15.71	19.5
1961	3.40	54.5	6.2	17.19	19.8
1962	4.62	75.1	6.2	24.68	18.7
1963	5.38	90.4	6.0	29.84	18.0
1964	6.31	108.1	5.8	34.11	18.5
1965	6.40	114.5	5.6	36.94	17.3
1966	8.64	169.2	5.1	51.34	16.8
1967	8.53	195.3	4.4	55.94	15.2
1968	10.70	241.1	4.4	60.73	17.6
1969	11.10	275.7	4.0	83.14	13.4
Weyenberg Shoe Mfg. Co.:					
1958	(3)	(3)	(3)	(3)	(3)
1959	(3)	(3)	(3)	(3)	(3)
1960	1.27	18.4	6.9	9.84	12.9
1961	1.42	19.1	7.4	10.58	13.4
1962	1.55	19.6	7.9	11.11	14.0
1963	1.68	19.8	8.5	11.69	14.4
1964	1.73	20.3	8.5	12.35	14.0
1965	1.75	21.4	8.2	12.18	14.4
1966	1.76	22.9	7.7	12.68	13.9
1967	1.93	31.9	6.1	13.48	14.3
1968	2.13	50.9	4.2	14.73	14.5
1969	2.26	52.5	4.3	15.98	14.1
Wolverine Worldwide Corp.:					
1958	(3)	(3)	(3)	(3)	(3)
1959	(3)	(3)	(3)	(3)	(3)
1960	.66	17.9	3.7	6.16	10.7
1961	1.22	24.0	5.1	7.07	17.3
1962	1.94	33.2	5.8	8.56	22.7
1963	2.53	38.7	6.5	10.42	24.3
1964	4.15	49.1	8.5	13.69	30.3
1965	4.80	55.4	8.7	17.28	27.8
1966	3.80	55.8	6.8	19.70	19.3
1967	2.86	54.8	5.2	21.24	13.5
1968	2.92	90.7	3.2	(3)	(3)
1969	3.73	100.8	3.7	27.61	13.5

[1] 8 companies, excluding Wolverine Worldwide Corp.
[2] 7 companies, excluding Melville Shoe Corp. and Shoe Corp. America.
[3] Not available.

Senator HANSEN. I note that for the year 1968 these nine companies had their net income expressed in percentages of their net worth and it was 15 percent. For 1969 it was 15.7 percent. I have the specifics on some of these companies, if you would be interested.

Senator MCINTYRE. How many companies are you talking about?

Senator HANSEN. About——

Senator MCINTYRE. How many companies?

Senator HANSEN. Nine. Brown Shoe Co., the Endicott-Johnson, the Green Shoe Co., Interco, Melville Shoe Corp. of America, U.S. Shoe Corp., Weyenberg Shoe Manufacturing, Wolverine, Brown Shoe Co. If you would like these specifics, I have them here. And I think they are pretty good.

I do not know any oil companies doing that well on their net worth, on their investment.

It would seem, Mr. Chairman, if I could make one further observation, that the distinguished Senator from New Hampshire has spoken about the importance of oil and gas to our total energy requirements. He says correctly that 75 percent of our energy comes from oil and gas. I quite agree with him that it does. More than 99 percent of all of our motive power comes from oil and gas, and I think it is far too important to this country to risk to the chicanery of foreign politicians and for that very reason, for the very reason that we do have the continued assurance of an adequate supply, President Eisenhower back in 1958 initiated this mandatory oil import program, and I suggest it has served us very well.

As a matter of fact, the distinguished Senator from New Hampshire wrote me on April 29—I will read the last paragraph—he says:

> As you may know, my bill would limit foreign imports of footwear to approximately 25 percent of domestic production, a figure which, I feel, is fair to both the foreign and domestic producers. You can be sure that if you introduce a bill which would raise the imports of crude oil to this level, I will be more than happy to consider cosponsoring it.

I would call the attention of my good friend to the fact that the Oil and Gas Journal for October 5 shows that the imports of crude and residual to this country, as of that day, amounted to 35 percent of the total produced in this country.

Senator McINTYRE. Well, we know—first of all, let me answer your question about your 10 or 11 or 12 big companies, big shoe companies. Oh, yes, we have them. They are fine companies. They are vertically, what we call vertically, integrated. They manufacture the shoe, they do some heavy importing, and they also retail it.

But when you take a look at the other 700 shoe companies, then you see a profit rating that is very low indeed, and all have got to realize, as I said before, that the industry itself has been fighting a losing battle, declining year after year.

Now, in our own hearings this shibboleth was put to rest. When you take the nine companies and insert their profit margins, it gives the appearance that the shoe industry is very vital and growing and a dynamic industry.

It is not. It is an industry in a great deal of difficulty, otherwise, I would not be here asking for this quota allowance.

The CHAIRMAN. Thank you very much.

Senator McINTYRE. Thank you, Mr. Chairman.

The CHAIRMAN. We have with us Senator Ernest Hollings of South Carolina. I know he desires to participate in the Senate proceedings, so I will call the Senator at this point.

STATEMENT OF HON. ERNEST F. HOLLINGS, A U.S. SENATOR FROM THE STATE OF SOUTH CAROLINA

Senator HOLLINGS. Mr. Chairman and distinguished colleagues, to complete the thought of the discussion relative to the profits, of the Senator from Wyoming on shoes, I do not have the shoe industry in South Carolina, but the whole thrust is really not to help a company make a profit. The whole thrust of these hearings is to preserve American jobs and opportunity.

I remember years back I went to the Elgin Watch Co. and I moved it down to South Carolina in a little town named Blaney, and we renamed the town Elgin, S.C. It operated very successfully for 5 years. The State paid for the entire training program and everything else. But after 5 years of foreign competition, there is not an Elgin watch made in America today.

What good is looking at the profit statement. They are making a profit. Elgin Watch is making a profit. They know how to do it. But what has happened, unfortunately, my distinguished colleague from Wyoming, is that you are just moving it into warehousing.

I am increasing my ports. I live in a port town, I helped to develop our port authority. I was always jealous of the Piedmont section of South Carolina that had all the textile industry. I wanted it for my hometown of Charleston. Now, the fact is I am getting it, but I am getting it opening warehouse after warehouse, and storing those Hong Kong and Japanese textiles, while the jobs are going overseas. That is the picture.

It was just about 3 years ago, as a matter of fact, October 20, 1967, that I last appeared before this committee to testify in connection with textile import control legislation.

At the opening of the hearings back in 1967, the distinguished chairman of this committee made a very telling comment, a comment which made a deep impression on me and many others who have worked so long and hard to preserve vital textile jobs. That comment, telling and true as it was in 1967, is even more poignant today, as we come to the realization that more than 60,000 textile and apparel jobs have been lost in the last 12 months, alone.

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

Mr. Chairman, I can't explain it to the thousands of South Carolina textile workers who lost their jobs in the last year. I can't explain it to the tens of thousands more who have seen their paychecks shrunk because the mill is operating only 3 or 4 days a week. I can't explain it to the hundreds of store owners, druggists, bankers, truckers or State and municipal officials who have seen the economic life of our textile communities grind to a standstill.

Serious as the textile import problem was back in 1967, it has become progressively worse. In 1967 textile imports amounted to about 2.6 million square yards. In 1968, they increased to 3.3 billion. Another record level was set by the 3.6 billion square yards in 1969, and so far this year they are entering this country at an annual rate of 4.4 billion square yards, and admittedly you can show a profit statement in some of these textile companies, because they are learning how to play the game and to move into offshore operations. In 1968, realizing that textile imports were getting completely out of hand, the Senate took decisive action to correct the situation. It approved, by a vote of 55 to 31, my amendment which provided for quantitative controls on textile imports based on the 1961–66 level of imports.

However, we were unable to hold the amendment in conference. Once again, in December of 1969, the Senate affixed the Textile-Shoe Quota

Act to the Tax Reform Act, but once again the House knocked it out.

Mr. Chairman, the bill which has been approved by the House Ways and Means Committee contains a much more liberal approach to solving the textile import problem, but, nevertheless, it gives the President additional authority to get the job done.

The bill places heavy emphasis on negotiated agreements, since any nation which enters into a voluntary agreement with the United States limiting textile imports will not be subject to the statutory limitations of the textile section. At the same time, however, it provides an automatic system of quotas for those nations which refuse to negotiate.

Much has been said about all of the dire consequences of this bill. We have been told that prices will rise, that everybody will retaliate against our exports and that we will be starting a trade war.

The truth of the matter is that we have been in a trade war for a number of years and we have been losing it. The time is long overdue for us to bring our 26-year-old trade policies in line with the hard realities of the seventies.

This much-bandied-about concept of massive retaliation simply is not true. The basic thrust of the textile section of the bill is negotiation; negotiation of agreements which will be acceptable to both sides. So no one can rightly talk about retaliation in the legal sense.

When it comes to practical retaliation, the same is true. Anyone who has carefully studied the pattern of international trade—as it actually exists—not as the free traders would like us to think it exists—knows that Japan and the other major trading countries buy their products whenever and wherever they can get the best bargains and trading conditions.

Let's take Japan, for example, because when we talk about textile imports, the major portion of our problem lies with Japan. Last year, Japan accounted for about one-third of our textile imports. We had a textile trade deficit with Japan in excess of $500 million last year, yet, when we talk about restraining imports, we hear the cry of "retaliation" from Japan.

Admittedly, Japan is the best market in the world for our agricultural products.

Japan buys these commodities from us in such large volume for one reason. She gets the best prices and trading conditions from the United States. When that ceases to exist she will stop.

In the postwar period, the Japanese economy has moved rapidly away from an agricultural economy to one which is basically industrialized. With an overall growth in gross national product of 10 to 14 percent—far greater than ours—Japan has become the second largest industrial power in the free world. Japan's heavy industry is outpacing its light industries. The percentage of labor employed in agriculture is declining steadily. The processing of imported raw materials into finished products with a higher increment of labor is the foundation of the Japanese industrial economy. In that way, Japan can take advantage of its huge low-wage labor force to compete in markets throughout the world.

The whole Japanese economy is structured toward importing raw materials, consuming many of them at home, and reprocessing the rest for its huge export trade.

Japan is a large buyer for American tobacco. Much of this is grown in my own State of South Carolina, and we are not about to jeopardize such an important market for one of our basic agriculture products. But Japan buys tobacco in the United States because the quality is best, and her people have developed a taste for American tobacco.

Japan buys soybeans in the United States, because the United States is the only country capable of supplying the volume Japan needs. This year we will sell Japan about 100 million bushels of soybeans. Her next largest supplier in 1969 was Communist China with 13.8 million bushels.

Mainland China has recently reduced its soybean production. All other nations together sold Japan about 13 million bushels last year. Any notion that these nations could take over the 100-million-bushel American export market is sheer nonsense.

The same is true with cotton. Japan buys cotton in the United States because it is available in the proper qualities, and the United States will help finance purchases.

Cotton is a prime example now, Mr. Chairman, of the fact that there is little or no relationship between what a major exporting country like Japan buys and sells abroad. During the past 5 to 10 years when Japanese textile exports to the United States have grown so rapidly, and you would think as a result they would purchase an increasing volume of cotton from the United States. There has not been any comparable growth, and her cotton purchases from the United States have not grown.

On the other hand, Mexico imports virtually no cotton textile products from Japan. They are not allowed. Yet last year Japan imported more raw cotton from Mexico than from the United States. You do not allude a particular commodity of an agricultural product to the items in trade.

Case after case can be cited to illustrate the fact that retaliation and reciprocity in international trade are nothing but myths. The talk of retaliation is nothing but an empty threat designed to keep the United States off guard while exporting nations shop the world for the best bargains and dump their low-wage finished products on the American market in ever-growing volumes.

The threat of rising consumer prices or shortages of supply is, likewise, nothing but a ploy. What interest does the United States-Japan Trade Council have, which puts out all these booklets, which gets more than 90 percent of its financial support from the Japanese Government? Now, the Japanese, why are they so interested in keeping prices down for the American consumer? Does anybody really buy that bill of goods?

They have flooded Members of Congress and the press with their propaganda charging that this bill will hurt the consumer. This simply is not borne out by the facts of the situation, and particularly the performance record of textile prices under the long term arrangement for cotton textiles. Look at that closely. The price of textile products is determined by a number of factors, possibly the most basic of which is the product mix, which is available to department store buyers and their customers. There is a "high" line and various gradations of medium- and low-price products available. This product mix would not be changed one iota by the bill pending before this committee.

The bill permits imports at a very high level and would permit annual increases. As a matter of fact, as the bill now stands, increases in imports could occur whether or not there was an increase in the size of the domestic market. Since the basic thrust of the bill is negotiation, there would be no massive rollbacks; both parties in a negotiated agreement would have to be satisfied, so there could hardly be any major restrictions which would result in shortages.

As a matter of fact, our State Department recently negotiated a comprehensive bilateral agreement with Malaysia, which is one of the most generous ever negotiated. It gives them a quota of 25 million square yards in the first year and provides for substantial annual increases. This is a liberal starting point since Malaysia's current level of imports to the United States is about 17 million square yards.

Cotton textile imports have been regulated by a type of voluntary restraint since 1961; U,S, imports of cotton textiles have more than doubled, and this occurred during a period when the domestic market for cotton textiles was leveling off, because of the intense competition from manmade fiber textiles.

It is most enlightening to look at what has happened to cotton textile prices under the LTA. This was the point I was about to make a second ago. In 1969, the wholesale price for cotton textile prices was only one-tenth of 1 percent higher than it was in 1960, 9 years ago.

Mr. Chairman, there are some 7,000 textile companies in the United States. They keep the prices down through competition. The record proves that. The only textile product which is completely under foreign control is silk. The silk wholesale price index in 1969 was 169.7. Compare this to the 101 for textile mill products, and you see a solid example of why this bill need not result in any rises in prices for textile products.

Mr. Chairman, our Government has had a commitment to the textile industry and its employees to get this problem solved for more than a decade—ever since Senator Pastore held extensive hearings on the plight of the industry and President Kennedy proclaimed his textile program on May 2, 1961.

But the textile industry and its 2.4 million employees is being led down the road to oblivion along a trail of broken promises and unfilled commitments.

Mr. Chairman, we have waited too long, and the stakes are too high to put off any longer, action which will bring the trading nations of the world to the bargaining table to work out agreements which will preserve for the American textile worker his rightful share of the job opportunities offered by our own textile industry.

I appreciate very much, Mr. Chairman and distinguished colleagues, you allowing me to appear and, more particularly, the Finance Committee taking up at this time—it is somewhat out of order—a trade bill, to consider it for reporting out to the Senate in the closing days.

The hour is late, and I commend the committee for its consideration.

The CHAIRMAN. Senator, I made reference to this earlier when you were not here, but now that you are here, I think I will make reference to it because of its importance to you.

Some very fine people came to me, one of whom is a member of the Japanese Parliament. This man, a very learned man, I believe he at one time served as the Japanese Ambassador to the Soviet Union, which proves he is a very brilliant and able man, both recognized by the people and appointed by his government to fulfill important responsibilities for that nation, that man could not understand, rather than just come and shout about protectionism in this country, why we would be moving to put quotas on textiles and on steel and other commodities moving in here from Japan.

He showed me an editorial in the New York Times, which is about the same day of the visit. That editorial said that we have a big balance, a favorable balance, of trade and, therefore, we should do more of this because this is the way, and the only way, we could hope to correct our otherwise unfavorable balance of payments, and that is about what our friends in foreign nations are reading.

I think you are aware of the fact that the New York Times is the only American newspaper that is read in most of these embassies outside of the United States, and even the Wall Street Journal publishes that kind of information. People cannot understand why we would be so concerned.

And so I undertook to show that gentleman that those figures are not correct. That on the plus side they are including under our exports all of the stuff we are giving away under Public Law 480, that is, the agricultural surplus, that is being disposed of, for which we are getting no money, nothing.

For example, the last year for which I have figures, 1969, that was $2 billion. Then they are pricing those imports on an f.o.b. basis, that would be what they are worth in a foreign country, but that does not include the price of hauling them over there.

So when you crank into your calculations the fact that 96 percent of the tonnage is moving in foreign bottoms, paying foreign seamen, you find you have to add about 10 percent to that foreign value figure to see what we are paying over here. That is what we are really paying.

If you make those adjustments the way the International Monetary Fund does it, and 1969 that $1.2 billion favorable item becomes a minus $4.4 billion.

Now, I think you can see the difference. If you are making a profit in what you are doing, it is a good argument to say you ought to do more of the same.

But if you are losing money, then the argument goes just the other way around, and since you are losing money you cannot afford to do this.

Now, that year our liquidity showed minus $7,221 million, of which more than half, in fact, I suppose if you make all the bookkeeping corrections to the effect that that year was unusually high because certain items had been postponed for the previous year, most of that would be accounted for right here in this trade balance, and if you go back then and start with 1965 through 1969, make those two simple corrections, take out the giveaways under Public Law 480 for which you are being paid nothing, and then add the freight bill in there that you are paying the foreign people, instead of making a profit of $15.5 billion, as we have been told in our newspapers and in the handouts around the world, including the official presentations before this committee, we lost $10,600 million. This is a difference there of $26 billion, official misstatements of fact, Senator, but that had a lot to do with the plight of the textile industry about which you have spoken so eloquently here today.

Senator HOLLINGS. Mr. Chairman, you just pointed out that it is sheer economic stupidity. There is no other way to describe it.

I frankly hold the highest respect for the Japanese, their people, their government, and I wish I had Sato and Aichi handling this problem rather than Nixon and Rogers. [Laughter.] We would have had it solved long ago. They know what they are doing. I think Japan is probably one of the most fascinating studies, certainly as the chairman from the Foreign Relations Committee here could tell you, probably Japan is the most, Tokyo is the most, important capital in the world today.

You have got Russia, you have got China, you have the Far East problem, and you have got this economic giant that is growing, intentionally knowing what they are doing. They have set their course, disciplined their people. They are rebuilding their nation and they have disciplined their people to suffering and denying themselves somewhat so that economically they can build themselves into the most powerful nation in the history of the world.

Herman Kahn, at the Hudson Institute, says in the year 2000 the average per capita income of the Japanese citizen will exceed that of the American citizen.

Now, it is not just low wages. They go about it, the government is the business, the business is the bank, the bank is the government. They just all operate in that fashion. They all take the way they price their things, the overhead, the maintenance, the research, the production, and all of those other costs, go on to the domestic product, where, if you buy a Toyota in Tokyo it costs you about 25 percent more than it costs in Baton Rouge, La. They are going to get that foreign market and, at the same time, when I talk about it, you have got the second most powerful industrial nation in the world that has got the 20th per capita income.

They do have problems in urban blight and sewage. I would like to run politically in that country right now, because they have more of these domestic problems than we have. But the way the government runs it, they do not have any problem, and they keep selling the bill of goods about the 30 years and Cordell Hull and reciprocal free trade, and leave off the word "reciprocal," and also trade policies enunciated and adopted by our Government when we had a monopoly in technology.

Today we only have a monopoly in technology in aircraft and computers. Other than that, the Japanese, the West Germans, all these other governments are running circles around us, and you just cannot compete under the shibboleth of free trade with a lower standard of living.

They have got a lower standard, we have got a higher standard, and you are going to have to take hard, fast business measures that are not sounding in the realm of music and harmony and history of Cordell Hull, and get it back up to date where we are in this country and get hard nosed about it, and make absolutely certain that we can trade, that it is mutual, that it is reciprocal, but it is not just all one way, and we keep patting each other on the back about how great we are, we have got heart.

We are just going to stand around naked on the corner before long if we continue this particular policy, and I would hope that after this hearing, and we do get this bill out, that they would really look at it and find out where our trade is headed.

The Japanese in 3 years' or 4 years' time are not going to bother us about textiles. They do not want it. They are going to move on to something better. They will move on to something better, and we will be up here discussing textiles, I guess, with the Koreans and the Philippines, and India. Sears, Roebuck is moving into New Delhi right now. They know where they are going.

The American businessman, Senator Hansen, is going to make his profit. But Japan is not going to hold on to this particular industry that just does not pay the top wage, and they can move on to more sophisticated things, and take over other things like the boatbuilding, electronics, radios, TV, transmissions now for the Ford automobiles, and everything else, and they are going about it in a calculated way while we are reciting history to each other.

The CHAIRMAN. I am sure you do not want to give the impression, nor do I, that we have anything but the highest regard for the Japanese and for their industrial leaders and their government leaders. We are only talking about what our policies should be.

I must say that to the everlasting credit of that government, so far as I know, they are not giving their people misleading sets of facts to go by, leading their government to think, or their people to think, that they can afford a great number of things that they cannot afford, as I regret to say our Government has been doing to us with these kinds of misleading figures to which I have been referring.

Senator HOLLINGS. Right.

The CHAIRMAN. Senator Hansen.

Senator Talmadge.

Senator TALMADGE. I just want to compliment Senator Hollings on his statement.

Senator HOLLINGS. Thank you very much. I do appreciate what the distinguished Senator from Georgia is doing.

I mentioned Senator Pastore. I know the Senator from Georgia has been to Geneva and has been working representing us in this Finance Committee, and knows of this particular concern by the U.S. Government for many years, and I am following his leadership on this committee.

The CHAIRMAN. Senator Fulbright.

Senator FULBRIGHT. I want to compliment the Senator. He always makes a very forceful and interesting presentation of whatever he talks about.

I only regretted——

Senator HOLLINGS. That is not going to help me at home. [Laughter.]

Senator FULBRIGHT. You mean the fact that I say it. [Laughter.]

Senator HOLLINGS. He and I are friends. We have discussed this.

Senator FULBRIGHT. Is it true, as the senior Senator from South Carolina has reported, that every time my name is mentioned in South Carolina it makes him sick to his stomach?

Senator HOLLINGS. Well, I had to follow him down at Boys' State right after he made that statement; yes, sir.

Senator FULBRIGHT. I regret that South Carolina has so far departed from the usual attitude of many rural agricultural States. It used to share our views in Arkansas about cotton and rice. I do not think you ever produced many soybeans, but you have become so rich now with textile mills that you have lost interest in our poor farmers in Arkansas.

There was a time when South Carolina had a different attitude toward trade with agriculture, but I do not blame you for that. I mean, if I represented South Carolina, I am sure I would feel just the same.

We do have some textiles in Arkansas, and I am very much interested in preserving them and giving them a fair shake, of course.

But what bothers me about this bill is whether or not the remedy to the problem is the correct one.

I noticed that those supporting the bill say very little about changing, for example, the foreign aid bill and giving away not only agricultural commodities, but giving away vast sums of arms to help people fight each other, such as we had much to do with arming both sides in the Indian and Pakistan war, as a specific matter.

We have given vast amounts of arms to Israel, I think on occasion we have given them to Jordan. We are almost glad to give arms to anybody if they agree to use them.

Why is it that some of the other of these fine policies that we have followed have not been mentioned?

With regard to the war, for example, you mentioned the Japanese. I agree with everything you said about the Japanese. They are a remarkable people and they handle their affairs very well. They made more money out of the war than any other single country at our expense; is that not correct?

Senator HOLLINGS. No question about it.

Senator FULBRIGHT. I have no criticism of them. They didn't start the war. As long as we are foolish enough to throw our money and men away like that, why, there is no reason why they should not make it as well as somebody else.

And, of course, Korea has made a lot of money out of the war and continues to make it, as does Taiwan.

I expect they are about in that order, that Japan is the biggest beneficiary—well, probably, Taiwan is next; and then Korea; and then the Philippines. They are all profiting, and Singapore. There is vast development in Singapore today, but these are things that are not the remedies here of cutting off trade and beginning going down that road.

The only question I raise about it, I grant there is a problem, the question about this bill is whether this is the right remedy. Couldn't we do other things that are much more beneficial to our people than to go down this road of putting on qoutas.

We had this experience before. We had similar problems in the twenties. We all know what happened in the Smoot-Hawley era, and while I know there lots of changes in the world, it worries me that we are to start down that road again. For a long time, at least, long before I came into this body, there developed the idea that trade—reciprocal and expanded free trade—for a country such as ours with the technology and the capacity for organization and production.

Have we been wrong all this time—I have an open mind—maybe we ought to reconsider our system. Russia uses a government sponsored barter rather than free trade. They made progress, but we have believed up to now they did not make as much as we did with regard to standard of living.

I am perfectly willing to be proven wrong. But I think, and I submit, that 2 days of hearings are not a very long time to prove a case that for 30 or 40 years we have been going the other way. That is the only question about it.

Senator HOLLINGS. Could I interject?

Senator FULBRIGHT. Certainly.

Senator HOLLINGS. We had not been taught the other way, quotas in and of themselves are not evil. The fact of the matter is that we have had under the leadership of President John F. Kennedy, since we got into the short-term arrangements around June, or maybe it was August of 1961, for a year, and then we extended it for 5 years. But the point is 34 nations, including Japan, have agreed on quotas, quotas on cotton textiles, and rather than start down the road, as you indicated, and glibly we use too often the expression, Smoot-Hawley, Smoot-Hawley—I do not know who they are—but I do know——

Senator FULBRIGHT. Well, I can tell you.

Senator HOLLINGS. I know. The Japanese keep telling me, they put out these portfolios. I do not want to hear about Smoot-Hawley. I want to show you a program that has worked; namely, cotton textile quotas.

Senator FULBRIGHT. You mean voluntarily.

Senator HOLLING. Voluntarily. The consumer has been protected.

Senator FULBRIGHT. Nobody objects to that.

Senator HOLLINGS. Nobody has objected to that. But as Senator Talmadge pointed out so eloquently on the floor during that debate, that it would dam half a river. We got it on cotton but we did not get it on manmade fibers and woolens, and, as a result, they went around and inundated those parts of the textile industry, and what we want to get is a comprehensive solution to what we already have found to be tried and true and tested and extended already three times by these trading nations, and not on Smoot-Hawley and on its terms, and we would be turning the clock back, it sounds like one of those New York Times' editorials.

The fact is otherwise. Let me point out another thing, too, because I disassociate myself from the idea that somehow—and you and I are always talking about polarization, categorizing and classifying, to fall immediately into this either/or syndrome, if you go for this, then you are against agriculture, the opposite is true.

I have just attested to that. We are trying our best to support our cotton farmers. But the fact of the matter is that we have practically thrown open the door and allowed these cotton textiles to come in that had not increased the consumption by Japan of cotton from the United States, but rather has increased it from Mexico where they do not let any Japanese textiles come in at all.

Now, the tobacco farmer, the cotton farmer, they raise those arguments, and I do not go along with the idea that somehow now I am going with textiles and have had to abandon the agricultural products. I am sure there is no more leading agricultural Senator in this country than Senator Talmadge, and he is known for that, and he would not dare for a second sacrifice the welfare of the American farmer for the textile industry or any other industry, and I just do not find that line of reasoning going at all.

Senator FULBRIGHT. Well, as I say, I do not pretend to know all the answers. But I have here, Mr. Chairman, today a letter from the American Farm Bureau Federation, which is certainly an important organization.

Senator HOLLINGS. Important insurance companies, yes.

Senator FULBRIGHT. What?

Senator HOLLINGS. Important insurance companies in the country.

Senator FULBRIGHT. Are you saying, then, that you do not think they have any interest in agriculture?

Senator HOLLINGS. Yes; they have an interest. You are jumping to the other extreme. Their major interest is insurance. I have watched them operate, and I see them up here wanting all kinds of quotas and finding for beef quotas, milk quotas. They have come to see me. I have helped them. But then when we got a quota to try to get some semblance—you understand now this particular trade bill you say, considering the 2 days of hearings, this is a flexible open ended authorization to the President of the United States that does not really fix in law the quota.

The fact is we have had about 12 years of hearings. We had a hearing on this specific thing already back in 1967 when it passed the Senate.

We had other discussions and floor debate and everything else in December this past year when again textiles and shoes passed the Senate by 65 votes, two-thirds of the U.S. Senate.

It is not ill-considered and wandering off into some road—as you indicate that going to means disaster, and send us back to Smoot-Hawley. It has been well-considered, and it has been considered by the American Farm Bureau, and they just—with the Japanese, heck, back in 1968 when we passed it in March, the next thing you know with the Agriculture Department the Japanese Government had my Governor in South Carolina, and the Governor of North Carolina running around Tokyo.

Now, we have gotten to this point that the ASC committees in South Carolina have mailed out a leaflet to every cotton and textile farmer telling exactly what you are talking about, but that is the crowd pulling the strings, and I have competed with them, and I think it is fine we identify and really know what is going on. This is not to hurt the farmer, it is not going to hurt that farmer, but it will stabilize the textile industry so they will have a chance to compete.

Senator FULBRIGHT. Well, for whatever it is worth, this letter, signed by Mr. Charles Shuman, president of the American Farm Bureau Federation, which happens to be quite active in my State; of course, each State has its own bureau and they are more or less, I suppose, devoted to insurance and agriculture, but they are among some of the best farmers in Arkansas. They belong to this organization, and they simply in this letter say they oppose textile import quotas, import quotas on shoes and mandatory quotas on oil.

I ask unanimous consent to put the entire letter in the record.[1]

[1] See p. 760.

Senator FULBRIGHT. I also received today a telegram from Mr. Kenneth D. Naden, executive vice president of the National Council of Farmer Cooperatives. They say that the threats posed by the position of the House Ways and Means Committee are of urgent concern to the U.S. farmers and their cooperatives, and they urge the committee to examine the elements of this bill in great detail in order to assess the damage which could result to U.S. farmers, exporting firms, consumers, and others.

For whatever it is worth, I believe, they requested an opportunity to be heard. I am aware that we will hear the Department of Agriculture later today.

I do not think these organizations oppose all of the provisions in this bill, nor do I. It is those items which the administration itself opposes. Some of them oppose it, on the ground it is being connected with the social seccurity bill. Some provisions have been subjected to study for 12 years, that the Senator mentioned.

But take the DISC proposal that is in here. I never heard of it before until this bill. In fact, I never heard of it until Friday, I guess it was, the first day of the hearing.

There are items, in other words, in here that have not been of general knowledge. The great discussion which has been going on here about the value added taxes and the possibility of that—these are new in this country. It is true they have been in force in places like France and Germany for a number of years, but the first time I ever heard of that was about 2 years ago from Stanley Surrey, who used to be in the Department of the Treasury. I asked him to make a study and report about this.

He did report and was very strongly against it, not because of the purposes which we may entertain here but because he said if you go down that line it is much simpler and better and easier to just put in a sales tax which would have domestic application, would excuse the exporter from any sales tax. He thought it would achieve the same result in a much simpler way which would be that expensive.

But I think, to be fair about it, all of this bill has not been considered. There is one thing in particular which is a very intriguing thought, and I am not quite sure how to deal with it because I had not heard it before until the chairman pronounced it this morning, and that is we have been losing money all along here on international trade because we did not take into account the delivery costs—that is, the cost of delivering goods to this country. If you include those, we would have been losing money most, if not all, of the time in recent years.

This is a new angle to it that I had not heard before.

I was given these figures, for example, that U.S. textiles and shoe imports from certain countries—these are the main countries, were about $1,924,660,000, I guess it is, and the agricultural exports to the same countries were $4,046,000,000.

I wondered if you know what the average cost of delivery or what percentage of the total cost of agricultural commodities of this sort are; is it as much as 50 percent of the value?

Senator HOLLINGS. I do not know, sir.

Senator FULBRIGHT. It seems rather unusual that $4 billion worth, even though you leave out of both accounts the cost of delivery, that this would bring up the textile imports from as much as $1.9 billion to nearly $4 billion.

I do not know how to deal with that, do you? Can you throw any further light on that? In other businesses, of course, the purchaser always pays the cost of delivery, doesn't he? It is included in his price.

Senator HOLLINGS. Exactly.

Senator FULBRIGHT. And from a competitive point of view the poor people who purchase our soybeans in Japan have to pay insurance and freight, too, don't they?

Senator HOLLINGS. Well, I think the factor is paid, but I think it is the accounting method that the distinguished Chairman points out we never have accounted for those in giving out the statements repeatedly about the favorable balance of payments. If they were included in everything else, it would be very, very unfavorable, rather than favorable.

Senator FULBRIGHT. But don't they include those in two different accounts? I mean, we do, I assume, have accounts as to the profitability of our Merchant Marine, and it appears, whether it is profitable or unprofitable. I do not know how much it is. Of course, other countries have emphasized their Merchant Marine more than we have. I expect the Greeks have an enormous favorable balance on their Merchant Marine and we have an unfavorable balance; isn't that the way they keep the accounts?

Senator HOLLINGS. Yes, sir.

Senator FULBRIGHT. And the trade is separate in a State alone.

Senator HOLLINGS. I believe that is true.

Senator FULBRIGHT. If that is true, your balance of trade would be one figure, your overall balance of payments would be another and, of course, we have had a big deficit in our balance of payments for a number of years since the dollar gap. It was not very long ago that, I guess before you came to the Senate that, we were urged to give away these goods, to do all sorts of things to close the dollar gap because all of our friends were broke. You remember that?

Senator HOLLINGS. No, sir. I sure don't remember that one.

Senator FULBRIGHT. Don't you remember talking about it and hearing about it?

Senator HOLLINGS. I remember the expression dollar gap. I didn't realize we had actually seriously proposed we would give away everything because our friends were broken, during my lifetime.

Senator FULBRIGHT. I oversimplified and overstated it, but in the fifties we had $24 billion in gold, and the Europeans were broke. That is why the Marshall Plan came up—to revive them. The idea was to revive their economy, make them function again, to keep them from going Communist. That was the big argument made in those days for the Marshall Plan.

Senator HOLLINGS. And it has been very successful.

Senator FULBRIGHT. The Marshall Plan was.

Senator HOLLINGS. Yes.

Senator FULBRIGHT. But none of the others have been very successful. But this is an about-face. This, like all other communities, is very slow to adjust. The concept was valid in those days. But we still continue to give away, don't we——

Senator HOLLINGS. We certainly do.

Senator FULBRIGHT (continuing). Arms, food, all those things. This is what really is wrong with our balance of payments. What I would like, what I am suggesting to you, is that we consider some of these matters, such as stopping the war and then cutting down about four-fifths of these overseas bases. We have got some 380 of them around the world, and to stop these aid programs which continue to give away all sorts of things.

Senator HOLLINGS. Senator, I do not believe we can wait until we can solve the entire problem, and I am sure you agree. The Government has to order its priorities, and when you have got a basic industry found backed by the Department of Defense as the second most important to the national security, attested to time and again during the fifties and early sixties under President Kennedy, and you look to find just where is that industry in your economy and how it relates to your national security, one silver lining in the dark cloud of Vietnam, if it can be characterized as such, is not backup in the Korea in the cold zone, but back in the torrid zone because if we were back in Korea we would have to fight with Japanese uniforms and Italian shoes.

Maybe that is why the President went to Rome. [Laughter.]

Senator FULBRIGHT. The Secretary of Commerce testified this morning that the textile industry as a whole is prosperous. Is that not so?

Senator HOLLINGS. No, sir. I can tell you right now.

Senator FULBRIGHT. That the industry as a whole is not prosperous?

Senator HOLLINGS. No, sir; it is not.

Senator FULBRIGHT. I thought we were incorrectly informed this morning about both volume of sales and the profits of the industry as a whole, textile and apparel industries. Well then, I misunderstood him or he was——

Senator HOLLINGS. Yes, sir. I do not doubt for a second those statements have been made by the opposition, and they continue to be made, and we went into that, and I can certainly provide the committee with the comparable analysis with all American industry, with other investments, with return on capital, their profit, and everything else.

There are some companies that still have maintained a profit, but they have been in large measure going overseas, that is where we lost the 60,000 jobs.

They just do not close down and quit doing business, they are going into offshore operations, and many of the shoe operations, many of the textile operations, to the Philippines, Hong Kong, they have made arrangements, and in Japan.

Senator FULBRIGHT. One other thing I did not mention. I won't belabor this, and this is we have active affirmative programs giving incentives to American business to invest abroad.

We give them guarantees, we have a big guarantee program which you could stop very easily, and it won't disrupt much and stop the trend toward American business being given an incentive to go abroad.

Senator HOLLINGS. On that particular point, there was a self-defeating Appalachia program, for example, where in Appalachia you could readily train the individual to perform in the textile industry, he could be highly productive in a short period of time. It was an opportunity for black employment, black capitalism. It is, I think, 17 percent of the textile industry in my State, about 17 percent is Negro employment, perhaps above that now, because the trend is gradually rising.

So here are all of these programs for the improvement of economic opportunity to the underprivileged, the Negro, the Appalachia white, and we are paying out some $499 million in Appalachia, while these textile jobs move overseas right and left and patting ourselves on the back at the same time about how smart we were, one canceling out the other.

Senator FULBRIGHT. Well, Senator, you make a very persuasive statement.

With reference to my first statement, I will ask that that be stricken from the record, as I would not want to say anything to embarrass you.

Senator HOLLINGS. No, sir. I was being facetious about a good friend.

Senator FULBRIGHT. I would be very glad to condemn you if that would help you more, as being one of the most backward men I have ever seen, if that pleases you and your constituents. [Laughter.]

The CHAIRMAN. Senator Hansen.

Senator HANSEN. Mr. Chairman, let me compliment the distinguished Senator from South Carolina on his statement, and harboring the possible fear he may have misunderstood me, I hasten to point out I am not objecting one bit to the type of legislation that the distinguished Senator from New Hampshire, Mr. McIntyre, is supporting.

I cosponsored every one of his bills, just as I have, as the distinguished Senator from South Carolina knows, cosponsored every one of his bills.

I did point out—I am not certain that the Senator from South Carolina was in here at the time—that Senator McIntyre wrote me saying that, if we could put some reasonable level on oil imports, around 25 percent, he would be happy to consider cosponsoring such legislation.

Yesterday I called his attention to the fact that the Oil and Gas Journal on October 5 pointed out that crude oil and residual imports into the country as of that date did not approximate 25 percent of our domestic production, but rather 35 percent, and I find it a little difficult to understand why the Senator from New Hampshire takes one position that expresses concern for employees in his State and then blandly dismisses the concern that we have for all of those in the petroleum industry whose jobs are dependent upon our domestic operations here and who, at the same time, seem to understand no relationship at all between domestically produced gas and oil and national security.

I want to say that I think you have made an excellent statement. I concur wholeheartily with you. We can talk about a lot of other things that we might do, but I think we can very properly say how many more jobs are we going to lose in addition to those 60,000 we have lost just this last year before we decide we had better be doing something about it.

Senator Javits of New York has introduced an amendment to the appropriations bill. He and Senator Nelson have introduced a bill which would add nearly $150 million, about $149 million 300-plus, to train people who have lost jobs, among other things. I would much rather keep those jobs, just as I know the distinguished Senator from South Carolina would.

Thank you, Mr. Chairman.

Senator HOLLINGS. Mr. Chairman, let me also thank the Senator from Wyoming. I am fully aware and constantly appreciative here for his support for our textile problem.

The CHAIRMAN. Senator, while you are here I would like to say for the benefit of my colleague, he was not here, I am sure he was busy in the Foreign Relations Committee, but in 1966 we held a hearing on this very problem of misleading official statistics, and that was with reference to Senate Joint Resolution 115 of that Congress by Senator Dirksen.

There was also Senate resolution 2322 by Senator Sparkman for himself and a number of other Senators.

Mr. Strackbein, who was in the audience, at the time, was one of the first witnesses to testify on that issue, and it was pretty obvious to the majority of us on the committee that the figures just were not reflecting what the facts were with regard to our balance of trade that was painting a very rosy picture which was, in fact, not the truth.

Senator TALMADGE. Mr. Chairman, if you will yield, Secretary Stans testified this morning and confirmed the chairman's view in that regard, may I point out.

The CHAIRMAN. That is right, with regard to that particular year. The way we were keeping books would have had us in that year reporting a favorable trade balance of $3.9 billion when, taking all items into account, as our staff computed for us for that year, we did not have any $3.9 billion surplus, we had a $1.2 billion deficit, and so the upshot of it was that the Commerce Department agreed that they would at least provide us with the information on a cost, insurance, and freight basis, so we could see what the situation would be if you took trade into account, and since that time they have provided on a quarterly basis some inadequate figures to give us some basis upon which we could see what our picture would be if we took the freight into account and undertook to adjust for that.

They had declined to do it on a monthly basis, and there will be a suggestion at least offered in connection with trade legislation this year to try to get this thing done so we actually can see what the real picture is instead of just seeing part of the picture, the part that is the rosiest without leaving out the other part. I do not at all challenge the Public Law 480 program. I think it is, on balance, a justified and good program.

I just do not think it ought to be treated as a favorable, part of a favorable, balance of trade when you are not being paid for those things.

To the extent that you are being paid back to this country for any of it, I think it could be, but insofar as we loan them money to India and then India pays it back to India, so it never comes back here, then I just think we ought to recognize it for what it is, an aid program, not a trade program.

Thank you.

Senator HOLLINGS. Thank you very much.

The CHAIRMAN. Now, the next witness will be the Honorable Clarence D. Palmby, Assistant Secretary, Department of Agriculture.

Senator FULBRIGHT. Mr. Chairman, while you raised that very interesting question about trade, I wonder if somebody on the staff could not check these profits, too. These figures that I have had given to me by a member of my staff say that the source of these figures is the Federal Trade Commission, Securities and Exchange Commission, and the quarterly reports of the Rand Corp. They say the textile sales—I won't read them again—if they are wrong I want to know about it. Maybe they made a mistake, too, as you say the trading people have.

I think it is a great disservice to our constituents if they are under the impression that international trade has been profitable when it has not, because they certainly thought so, haven't they? Wouldn't you say most people thought so?

The CHAIRMAN. Well, I have never found anyone yet, Senator, that when you point out to them that they are including in their statement of a favorable balance of Public Law 480 grants and foreign aid sales——

Senator FULBRIGHT. I agree with that. I agree completely on 480. I thought you were going to the question of delivered costs, and so on. Haven't they normally been carried in two different categories in trading? Balance of trade is one thing, the balance of payments is a different thing, and the question of freight and insurance, and so on, shows up in your intangibles and comes in your balance of payments; isn't that the way it is usually reported?

The CHAIRMAN. As I undertand it, it is only the United States and South Africa and a few other countries which reflect their trade on an f.o.b. basis. The United Nations, the International Monetary Fund, and practically all foreign countries do it on a c.i.f. basis, including freight and insurance.

Senator FULBRIGHT. I think you are entirely right and it should have been done long ago to draw attention to this sort of thing, if that is the way it is. What it really means is we are very weak in our insurance and in our business and in our commercial rates.

The CHAIRMAN. We hope to improve that situation, but that is how it stands.

Senator FULBRIGHT. I agree with that. The way it was presented, I think we are wrong if all other countries report it on c.i.f., I think we ought to.

The CHAIRMAN. I think so, or at least we ought to perhaps go into it in a more sophisticated fashion if anyone wants to do it and break it down on a ship-by-ship and country-by-country basis, to see where the money went to, whose sailors got the money, where the money went when we paid for shipping, so we look at the whole picture and not make it a misleading, rosy picture by putting on something on an f.o.b. basis when most of the shipping is done on somebody else's ship.

We will next hear from Mr. Palmby with respect to the agricultural exports, primarily, or anything else you want to touch on.

STATEMENT OF HON. CLARENCE D. PALMBY, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, DEPARTMENT OF AGRICULTURE

Mr. PALMBY. Chairman Long and members of the committee, I have a very short statement; and, if I may, I would like to read this and make three or four comments.

The CHAIRMAN. Yes.

Mr. PALMBY. I welcome the opportunity to present Agriculture's views on the trade bill which is before you. The Department of Agriculture supports those provisions of this bill which Mr. Gilbert indicated in his testimony on October 9 were acceptable to the administration.

We oppose the other provisions of the bill and we are particularly concerned about the quotas on shoes and the changes in the escape clause which go beyond those suggested by the administration. Provisions in the bill for widespread use of quotas will be sharply injurious to American agriculture.

American agriculture is a major dollar earner in the international market. During the past fiscal year our commercial exports of agricultural products for dollars amounted to $5.7 billion. This was a major contribution to our balance of trade and thus to our balance of payments. It was a major contribution also to the income of American farmers. This is particularly the case for such important products as wheat, feed grains, and soybeans and their products. Exports of these three produce groups alone amounted to $3.3 billion. Major portions of these crops move into international trade.

Senator FULBRIGHT. May I ask you there, are you speaking of this the way the chairman does; is this f.o.b.; what kind of figures?

Mr. PALMBY. It is f.o.b.

Senator FULBRIGHT. Have you not just been told that is an erroneous misleading way to do it?

Mr. PALMBY. Senator, I would like to make a general comment at the end about what the freight costs would be.

Senator FULBRIGHT. Okay.

Mr. PALMBY. On these bulk cargo items.

Senator FULBRIGHT. Okay.

Mr. PALMBY. The situation in soybeans is of critical interest to us. Our total exports of soybeans and products have increased over the past 5 years from $1 billion to $1.5 billion, a rise of 50 percent.

Soybeans, as you know, have been the "great adjuster" in American agriculture the past 20 years. As the grains have been reduced in acreage—as cotton has declined in acreage and shifted in geography—soybeans have often been the crop that helped farmers take up the slack. This year, we will harvest 41.6 million acres of soybeans, compared with fewer than 14 million acres in 1950 and fewer than 24 million acres in 1960.

This growth in soybean production was aided substantially by the export market. The past marketing year, the export market for soybeans and meal took the harvest of more than 20 million acres—an acreage more than equivalent to the entire growth in soybean acreage, phenomenal as it was, for the past decade. Without an export market, U.S. soybean acreage would have to be reduced, and the tightening would be felt throughout the country. The big markets for soybeans are the EEC and Japan. I shall make the significance of this more clear later on.

Our agricultural exports for dollars during the past fiscal year were a record—$5.7 billion.

Senator FULBRIGHT. This is for dollars now, not giveaway?

Mr. PALMBY. This is for dollars.

Senator FULBRIGHT. We want to be very clear about it.

Mr. PALMBY. Or to put it another way, $5.7 billion are for commercial transactions.

Senator FULBRIGHT. Good.

Mr. PALMBY. They recovered well from the slump of the previous 2 years. This coming year promises to be even better—that is the current fiscal year.

Our total exports may well amount to over $7 billion, which would be a new record. This would be commercial and Public Law 480, which I will describe later. Commercial exports should also surpass last year's by a considerable amount. American agriculture has achieved these results only through sustained and intensive work to develop and maintain foreign markets—and these markets can be kept and improved only within a worldwide framework of liberal trade.

Our producers and exporters face many delicate situations in their export markets at the present time.

The Common Agricultural Policy of the European Community, for example, has been a problem for a number of years, and it has seriously affected our exports of grains and other commodities subject to variable levies. We in the administration are seeking actively and intensively to bring about much needed changes in this situation. Despite these problems, the European Community is a major agricultural market, taking $1.4 billion from the United States last year.

The United Kingdom has in recent years been shifting from a system of deficiency payments to support farm income to a greater reliance on protection at the border and import restriction. The new United Kingdom Government has indicated an intent to speed up this transition as a matter of policy. The United Kingdom bought $400 million from us last year.

The prospect of an enlarged European Community to include the European Community, the United Kingdom, and the other three applicants presents additional delicate problems for American agriculture. Unless reforms of the present agricultural system in the Community is accomplished, our export markets to this very large market will shrink further.

Japan has been a mainstay for American agricultural exports. It has been a steadily expanding market. During the past fiscal year Japan became our largest single country market, taking over $1.1 billion of our food and fibers. Japan continues to present a great opportunity for agricultural expansion, but that market also presents its problems. The Japanese have made no secret of their wish to diversify sources of food imports so as not to be dependent on one exporter. Over the longer run, this could be a real problem. Japan also maintains quota restrictions on some of our products, which should be removed.

Unwarranted protectionist actions by the United States now would wreck our chances for dealing successfully with these and other problems which American agriculture faces abroad. Such protectionist actions, moreover, could cut back sharply the present level of exports we send to these markets.

I mentioned earlier that soybeans are a prime dollar earner in our export trade. Soybeans also stand out as a prime target for retaliation, should the United States take unwarranted protectionist actions.

Senator TALMADGE. Mr. Secretary, would you yield at that point? I want to point out to you that according to your own circular which was published last year, U.S. Department of Agriculture Farm Circular, 1969 total exports of soybeans worldwide last year was 342.4 million bushels. Of that, the United States exported 311.1 million bushels: mainland China, 18.2 million bushels; Brazil, 11.4 million bushels. All other nations in the world, 1.7 million bushels.

The Department of Agriculture also published a circular this year, September 1970, and I quote from page 39:

> The phenomenal performance of U.S. soybeans and products has overshadowed all other activities in the world fats and oil trade this year. In fact, soybeans have been virtually the only commodity in sufficient supply to bridge the gap in the world shortage of oil and meals.

My question is this: If the United States produced about all the soybeans available for export and there is a worldwide shortage of oils and meals, who are they going to retaliate against and where are they going to get the product?

Mr. PALMBY. Senator Talmadge, I do have a specific example here just a bit later, but I would like to lead into that. Before I do, I would like to state this: It is our feeling, and I think my judgment, that there is not such a thing as an agricultural commodity against which there cannot be a substitute or another source of supply developed. The substitute may not necessarily be soybeans.

Retaliation, which, if I may go on, in this European situation could be in the form of an internal tax—which has been talked about so much—on vegetable oil and marine oils and oil cakes. This, of course, would make the price of vegetable oils less attractive and also that of oil cakes less attractive with other feed ingredients.

This could, in turn, cause other countries to develop products in competition with our soybean oil and soybean meal not the least of which is fish meal, not the least of which is sunflower oil from other sources and not the least of which is synthetic amino acids for use in feed formulation. While you say that all of these may be a bit remote, I think not. I think they are constant threats.

Senator TALMADGE. I do want to compliment the Department and the farmers of this country who have done an outstanding job of production and export. I am vitally interested in the farmers myself.

My own State exports a good deal of its cotton, exports a good deal of its tobacco, and exports a good deal of its peanuts; and I am just as interested in those exports as the Department of Agriculture or any other Senator. My point is this: Any government is going to buy the commodity wherever it can get it the cheapest in the final analysis, so when they talk of retaliation, I want to point out that Japan itself has 98 different quota systems.

The European countries have quotas against Japanese textiles and various other items. We are living in a total world where no one, to my knowledge, has free trade. It is an illusion rather than a fact.

Mr. PALMBY. Thank you.

May I go on?

Senator TALMADGE. Certainly.

Mr. PALMBY. Our exports of soybeans and their products to the European Community are in this fiscal year running at an annual rate of $640 million. The European Community has been quite open in its desire to curtail the import of soybeans and their products.

Soybeans, as you know, are not subject to variable levy treatment in the Community because they are bound duty-free in the GATT. The United States negotiated this concession a number of years ago. If the Community were to cut back our exports of soybeans to the level of 1967–69, we would suffer an export loss of about $200 million a year.

It has been said that the Community needs our beans and would not take any such restrictive action respecting them. In my judgment, the Community can find substitutes for these American beans and meal. Indeed, their purpose in desiring to curtail imports was to make possible greater sales of domestically produced grains and dairy products.

As I mentioned earlier, Japan has been a growing market for our farm products. Should the Japanese limit our exports of corn to the 1967–69 level, we would sustain a loss to our export trade of at least $110 million a year.

I could give other examples, but I think the point which I am trying to make is clear. We cannot expect to apply wholesale restrictions on imports into the United States from such major agricultural markets as Japan, the EEC, and the United Kingdom without expecting action on their part to reestablish the balance-of-trade advantages which has been negotiated in trade agreements. The GATT provides for this——

Senator TALMADGE. Will you yield at thta point, Mr. Secretary?

Mr. PALMBY. Yes, certainly.

Senator TALMADGE. You are also aware that GATT provides under article 12 authority to take action to limit exports by quantitative quotas when they affect a nation's balance of payments, are you not?

Mr. PALMBY. Yes, sir.

Senator TALMADGE. Have we not had 19 different deficits in the last 21 years on our balance of payments?

Mr. PALMBY. I think, Senator Talmadge, this is not a balance-of-payments measure that we are talking about here. On the specifics, though, if I may go back to the Community proposal of 18 and 24 months ago to invoke an internal tax on vegetable, marine oils and oil cakes, the proposal was being made to bring about a more normal balance between the price of soybeans, soybean meal and other oil cakes and the grains which are abnormally high priced in the Community. And what I say to you, Senator Talmadge, is that this issue is still a very live issue in the minds of the Europeans.

Both in the past administration and the Nixon administration, we have made it very clear that the invoking of such a tax would be interpreted in this country as a trade impediment and we would take action. But I do say to you that I think we would both lose in that type of a situation. And this is what I am trying to point out.

Senator TALMADGE. Proceed, sir.

Senator MILLER. Could I ask a question at this point?

You stated that soybeans are bound free of duty in the GATT?

Mr. PALMBY. As far as the European Community is concerned, yes.

Senator MILLER. Then this proposed internal tax that you refer to would be in violation of the GATT?

Mr. PALMBY. We would interpret it that way. We would submit it to GATT, request that a hearing be held, and request that the tax be declared in violation of GATT.

Senator MILLER. Well, if they are bound free to the EEC, it seems to me an internal tax would be in violation.

Mr. PALMBY. Senator Miller, of course their counter-argument would be what they do internally with their tax structure is not an external problem. We, of course, would maintain it would be a trading barrier.

Senator MILLER. The reason I made that point is that perhaps you are suggesting that they are going to retaliate by violating the GATT and, if that is so, it seems to me that would be a rather poor way to retaliate.

I can understand shifting over to some other oil, but if they would retaliate, if disposed to do so, by violating the GATT and also by greatly increasing the costs of their consumers, which this would do, I would think it would be a rather irrational act.

Mr. PALMBY. Senator Miller, if the Europeans put on a tax under the retaliatory provisions of GATT, they would not be violating the GATT. If I could carry this on a bit what I am trying to establish is that the very heavy use of soybeans in Europe, has resulted from the price relationship between the cereals and oil seeds. The price of cereals has been kept higher because of the European Community variable levy system. If we, for instance, should be taken to GATT first as being in violation—shall we say, because of the invoking of quotas on shoes—then it is our fear—and believe me we are sincere about this—it would be our fear that at that point then they would levy an internal tax on the soybean oil and oil cake and do it under GATT's retaliatory provisions. So step by step we are all in front of GATT, one is done to offset the other.

Senator TALMADGE. Would you yield at that point, Senator Miller?

The Europeans themselves already have quotas against Japanese textiles, so would they not be in the same boat, would it not be the pot calling the kettle black?

Mr. PALMBY. I believe, Senator Talmadge, that they are exempt under the articles of GATT because of prior arrangements on this case here.

Senator TALMADGE. Well, they are much more restrictive on their textile imports than we are.

Mr. PALMBY. I understand.

Senator TALMADGE. And every nation on earth that is industrialized has quotas on textiles. If the rest of the nations can do it, why cannot we?

Mr. PALMBY. Senator Talmadge, I did state that we support the administration position on textiles.

Senator TALMADGE. Yes.

Mr. PALMBY. I was only trying to illustrate here the reaction we might expect for example if we put quotas on shoes. Whether it is the European community or someone else or some other product, I am just trying to trace through how I think retaliation might operate.

The CHAIRMAN. Let me get one thing straight in my mind.

Do I understand that you are testifying against, or for, or neutral with regard to the House provision with regard to textiles?

Mr. PALMBY. My opening statement, I think, is very clear. It supports those provisions of the bill which Mr. Gilbert indicated in his testimony were acceptable to the administration.

The CHAIRMAN. That would include the textile quota?

Mr. PALMBY. That is correct.

The Chairman. So your shoe quota, no; textile quota, yes?

Mr. PALMBY. I did not testify about this because it would have been duplication.

Senator MILLER. May I ask a further question: If the position of the administration is to support the textile quota provisions of the bill, that would seem to lay a foundation for some of this retaliation that you have been talking about.

Now we come along and say it is all right to do on textiles, but not on footwear because we may have retaliation on footwear, and I am wondering if we are not getting ourselves into a difference without a distinction. Why should we propose quotas on textiles if this could lead to retaliation by the EEC, and not impose restrictions on footwear if this could lead to retaliation by the EEC?

Mr. PALMBY. Senator Miller, I think Senator Talmadge made a good explanation of this point. The European countries already have a restriction on Japanese textile going into the Community, I used only the illustration of shoes because it is a provision that is in the House bill and that raises quite a different problem than that which would be presented by the administration by quotas, or voluntary restraints preferably on textiles.

Senator MILLER. The answer seems to be that they are already in a situation employing their own restrictions on textiles vis-a-vis Japan.

Mr. PALMBY. That is right.

Senator MILLER. Which are apparently not in violation of GATT, so if we come along with our restrictions, they are not in very good position to talk about it.

Mr. PALMBY. I think, Senator Miller, that has generally been understood by the trading countries.

Senator MILLER. What about Japan?

Senator Talmadge did not indicate that there was any similar restrictions by Japan on imports from the EEC, although I would guess there probably are.

Mr. PALMBY. Yes, there are.

Senator MILLER. But we come along with textile import quotas, would there be a parallel situation with Japan as well as EEC?

Mr. PALMBY. Yes.

Senator MILLER. What would there be?

Mr. PALMBY. First of all, Japan also controls textile imports by quotas and, repeating, the Europeans already have Japanese textiles going into the Community.

Senator MILLER. But in one case, since the Europeans have their system against Japan, they could not complain about our system against the EEC on textiles.

On the other hand, if Japan has restrictions on the EEC on textiles, then the answer would be, they should have no complaint on textiles to the United States.

Mr. PALMBY. Senator Miller, in all our conversations regarding trade matters, we have recognized the possibility that the other party may take some action on its part. There is always a chance that the other parties to those conversations will feel that there should be something given in return.

I do not think there can ever be a guarantee, but I say here the case here for textiles is quite different.

Senator MILLER. I had thought there was a difference between the textile situation between the EEC and Japan and perhaps you have put your finger on that difference. I know some time ago there was some concern expressed that if we had quotas on textiles from Japan, Japan would retaliate in putting quotas on our agricultural exports, but the administration apparently feels there is no reason why we should not include that on textiles since Japan already excludes textiles from any other country, and since the EEC already excludes textiles from Japan, and I presume it would be that Japan is in violation of GATT right now, is she with respect to excluding textiles from other countries?

Mr. PALMBY. From the United States, yes. I guess I could not answer that question for other countries because, to my knowledge, the point has never been contested.

Senator MILLER. Thank you.

Senator FULBRIGHT. Could I ask with regard to this point about EEC Senator Talmadge raised, is it not the fact that what you are saying is that there is a difference between unilateral action by a bill and through negotiating a change? They had already negotiated what their position is in the EEC, the Community, that has been existing a long time. If we are going to change ours, it is quite a different thing doing it by negotiating an agreement with them and simply putting it into effect by unilateral action.

Does that not have a different effect?

Mr. PALMBY. Senator Fulbright, there is a bit of difference here because, as I did state, the Europeans did bind soybeans duty-free.

Senator FULBRIGHT. Yes.

Mr. PALMBY. And what has made us very uneasy is the fact that they do operate a variable levy system, for instance on grain, and because of their very high internal prices on cereals in the Community, the levy system has really greatly upset the price relationship between feed and grains. Frankly, they have talked to us many times about their need to take some corrective action and we have constantly said that we would interpret such action as being in violation of our binding.

Senator FULBRIGHT. I think you are quite right. I think also that you cannot rely entirely upon your technical rights under the GATT. I mean there are very practical questions here.

Mr. PALMBY. Yes.

Senator FULBRIGHT. We have had some experience. Take the poultry industry. We used to have a very good market for Arkansas poultry in Germany. You know what happened to it with the variable levies and so on. I think whatever we may think about it, if we go down that road they have a way of interpreting it the way they see it and it is a long time before you ever get the market back.

Mr. PALMBY. That is very true.

Senator FULBRIGHT. We have lost this market. We lost it for economic reasons. They simply learned how to produce the poultry and there was nothing we could do about it. The same thing goes with soybeans. And if we give them good reason for it, they can find a substitute. And if there is an incentive they can develop soybeans.

The soybean crop has developed in my State only within the last 30 years. It was not anything 30 years ago; it is now one of the leading crops in my State. It would be a tragedy if we give them a good reason to abandon it.

I want to congratulate you on your statement, it is an excellent statement, and certainly the people of my State would agree with it.

Mr. PALMBY. Thank you.

Mr. Chairman, could I share three figures with you or three comments on figures?

No. 1, the agriculture contribution to the balance of trade, commercial exports versus imports. According to our best calculations, in the past 10 years strictly commercial agricultural exports show a plus of about $2 billion.

No. 2, the Public Law 480 figures. At the present time the terms under the 480 agreements are being hardened, and this has gone on now for the last 2 or 3 years.

As an example, last year there was $1 billion worth of commodities moving out under 480, and in turn our figures indicate that $360 million returned to this country in dollars as a result of those sales. So really, if you adjust for the dollar return from sales made under 480, the contribution of agriculture or farmers to this Nation, to its balance of payments and balance of trade, would total over $4 billion for the past 10 years. The percentage returning to us annually through 480 agreements, I repeat, is increasing now each year.

Senator FULBRIGHT. What was the figure on 480?

Mr. PALMBY. Last year $1.049 billion worth of foods moved under 480 agreements. And the dollar return was about $360 million.

I would like, Mr. Chairman, to supply these figures for the record, if I may.

(The figures follow:)

U.S. AGRICULTURAL TRADE, BALANCE-OF-PAYMENTS BASIS, 1960-69

[In millions of U.S. dollars]

Year	Exports (f.o.b.) Commercial	Exports (f.o.b.) Dollar returns from noncommercial [1]	Exports (f.o.b.) Total dollar returns	Imports (f.o.b.)	Adjusted commercial trade balance
1960	3,458	171	3,629	3,894	-265
1961	3,569	201	3,770	3,756	14
1962	3,614	288	3,902	3,898	4
1963	4,046	198	4,244	4,044	200
1964	4,720	240	4,960	4,090	870
1965	4,869	225	5,094	4,086	1,008
1966	5,476	184	4,660	4,491	1,169
1967	5,057	347	5,404	4,452	952
1968	4,981	314	5,295	5,024	271
1969	4,833	368	5,201	4,958	243

[1] Mostly from Public Law 480 sales.

The CHAIRMAN. Well, that is fine. So that last year, instead of your deficit being $4.4 billion, it would be $4.1 billion. But that is still a great big deficit even if you—when you make that allowance for that $360 billion. That would be perfectly satisfactory for me to make, but there is a lot of difference between $1.349 billion and $360 million; you concede that?

Mr. PALMBY. I grant that, Mr. Chairman, but I do repeat: the terms are hardening under these agreements. I will grant there is a good deal of concession in these sales, but the trend, in my opinion, is in the right direction.

The third item I would like to share with you is this matter of ocean transportation costs. Most of our items, as you know, in dollar value, are bulk cargo items. As a rule-of-thumb for the grains—meaning corn, wheat, and sorghum—you should add about 15 to 20 percent to the cost of those items by the time they land in Europe or in Japan. As for soybeans, you should add about 10 percent, because of the higher per-ton cost as compared with the grains.

This is a ball park figure, Senator Fulbright.

The CHAIRMAN. Of course, if that is a foreign ship that is carrying it, we are not getting anything.

Mr. PALMBY. That is correct.

The CHAIRMAN. In fact, that is something to go toward the other fellow's balance of payments rather than ours.

Mr. PALMBY. That is correct. That is why I think, for our purposes of our totaling our sales, that probably we are well advised to use f.o.b. figures on these bulk cargo items, because most of them go on foreign flag vessels.

The CHAIRMAN. Right.

Maybe you can agree with me on this: If we want to see whether we are making money or losing money in our balance of trade, you ought to take a look and see whose ship that is both coming this way and going the other way, and in terms of tonnage, about 94 percent of the cases would be the other fellow's ship, only about 6 percent of it going in American bottoms.

Some of those ships owned by American companies flying foreign flags and some of that money comes back home, but those seamen's wages do not. So as far as I am concerned, I would be happy to take the whole thing into account, but otherwise, I think that there should be some rough measure of calculation such as the International Monetary Fund uses when it puts a 10 percent item to it, adds 10 percent to your importing figure but, in any event, no matter whether you calculate it the way the Secretary of Commerce said he would calculate it this morning, and he may have more sophisticated figures than I have, or whether you calculate it the way our staff did for lack of a better method, it still has the effect of changing what some would like to present as a plus figure into a minus figure, and that is how it would be for the last 5 years.

Now prior to that time, we would have had a plus figure even if you looked at it on that; in fact, starting 4 years ago we would have had a plus figure in the balance of trade although not nearly as big a plus figure as those who would like the other basis would contend for.

Mr. PALMBY. I understand.

The CHAIRMAN. Thank you very much.

Senator FULBRIGHT. This does not leave me quite satisfied, Mr. Secretary. Insurance and transport is an item like the support of our embassies abroad. Support of any American governmental activity abroad is also something which enters into the balance of payments.

We have always separated them and said, "Yes, our balance of payments is such and such" that is the justification for picking up now insurance and transport and arguing that this is against trade.

If this is true, and it is a valid assumption, then we ought to stop all trade because we are losing money; we ought to put up an embargo on it if we are actually losing money in this activity.

It seems to me what this amounts to is that we have a very inefficient high-priced merchant marine which cannot carry its weight. We give a huge subsidy to it for every year, but for reasons I will not go into now, it does not pay.

We are not the biggest insurance people. I suppose the British and others take care of most of the ocean insurance too, do they not? Lloyd's of London, for example?

Mr. PALMBY. Yes, Senator.

Senator FULBRIGHT. Is this not an item that is properly considered in the balance-of-payments figures rather than in the balance of trade because here we are talking about the actual movement of goods?

Take tourists, for example. We have already had testimony suggesting we ought to keep the tourists home if we want to balance our payments.

There was an effort made—a tentative effort made—to put a tax on everybody going abroad, you know, about 2 or 3 years ago.

Mr. PALMBY. Yes.

Senator FULBRIGHT. Well, that is a possible way to discourage tourism, which is a big drain upon our balance of payments, just as the payment of transport is a big drain.

Has this not been the traditional way you have regarded this matter?

Mr. PALMBY. Senator, I guess I just have not much to comment on it.

Traditionally, the Department of Agriculture has kept their figures on the f.o.b. basis, and I think that probably Secretary Stans' comment this morning was about as far as I can go. Maybe we and the entire executive ought to take another look at it.

Senator FULBRIGHT. I hope you will.

I hope you will look at it in the way I am suggesting, that the way to improve our balance of payments is to cut out some of these extravagances that are a hangover from our policies of 15, 20 years ago, particularly in the middle 1950's, and in the time when the cold war was much more threatening than it is today.

I agree it should be. This seems to me the wrong way to do it is to put up barriers to trade which is the one area which we regard by itself, in the opposition, for example, or comparison from tourism and investment guarantees for a business to go abroad. Trade is the one bright spot in this, it seems to me.

The sacrifice, if your theory is correct, as I think it is, would be a great mistake in our overall policy. I do not want you to examine the one good part of our balance-of-payments picture that is doing any good—the others are all bad.

The CHAIRMAN. Look, you have got about a $1.5 million deficit in trading with Japan. Japan keeps her books on a c.i.f. basis.

Mr. PALMBY. That is correct.

The CHAIRMAN. All those European countries keep their books on a c.i.f. basis. The U.N., the International Monetary Fund, they all put it on a c.i.f. basis because they think it is a proper basis. You cannot trade without hauling the commodity from one country to the other, and somebody has to pay somebody for that transportation. Now, you simply cannot separate the transportation away from your trade and say that is not a part of it. Would you contend that is not a part of your trade, the actual transport of the commodity to the foreign country?

Mr. PALMBY. Mr. Chairman, I think we are on a little bit different wavelength and you are perhaps far more right than I am. But we have always looked upon this as an accounting system, and I know what you are saying—that when we talk with our Japanese friends or European friends they use a different accounting system. But the truth is it is an accounting system, isn't it, and as long as we clearly define what we are saying and it is clearly understood that that is what it means, we can make appropriate adjustments. I expect that maybe we are more relaxed, maybe we are too relaxed about this, but it is a fact of definitely understanding how we are making the accounting.

Senator BENNETT. Mr. Chairman?

The CHAIRMAN. Here is the thing that concerns me about it. We are being told that we have a favorable balance of trade so we must do more of what we are doing and pursue more of the same policies that we have been pursuing.

All right, now, here are two sets of books, one kept one way and one kept the other and from 1965 through 1969 keeping the books the way I think is very badly in error we showed a profit in this item of $15.5 billion.

Now you keep them the other way, the way that this staff thinks they ought to be kept and the way that every nation except the United States and South Africa and a few others are keeping their books and we had a deficit of $10,600 million.

Now, nobody is quarreling about the balance of payment figures. We both agree that is being kept in a way that shows where you stand on balance of payments.

During that same period of time we showed a balance of payments deficit of $13.1 billion of which that $10 billion deficit was 80 percent.

Mr. PALMBY. Yes.

The CHAIRMAN. Now, so rather than say that we must continue to trade as we have been trading because that is how we are offsetting the other favorable items the fact is that that is 80 percent of the unfavorable items right there, during that 5-year period. So that you cannot continue to do business that way unless you want to keep going in the red.

You have got to help improve your situation.

You are trying to improve it by pushing the sale of agricultural commodities, fine. I am not complaining about that. All I am saying is that part of what is wrong with the rest of it is the big deficit on the other items that are not agricultural, and it would seem to me that all the facts and all the evidence would show that we have got to improve our way of doing business and that is one reason I take it that this administration is recommending a quota on textiles which you are testifying for here even though most of your statement goes in the opposite direction, and if I understand correctly, one of the reasons that we are being told that we have to do this is because of our unfavorable balance of trade which is the largest single item in our unfavorable balance of payments.

Is that right or wrong?

Mr. PALMBY. You are correct, we are supporting the administration's position on textiles.

The CHAIRMAN. Well, thank you. Senator Bennett?

Senator BENNETT. I was just going to make the point, and it has been made over and over again and I am glad that you have cleared up the fact, that even though you may choose to state your balance of trade with these other figures, that that is a part of the overall bigger figure of the balance of payments and it has to be straightened out when you transfer the figures from balance of trade to balance of payments.

I was in business long enough toknow that when you are going to compare items or records in an accounting system they had better mean the same thing.

You cannot make a comparison if one set of books is kept on one basis and the other set of books is kept on another basis. The National Association of Certified Public Accountants has a group working all the time to try to define what an item in a business statement means, so that everybody understands the same item to mean the same thing. By the same token I think it is necessary if we are going to make comparisons between our record and the record of other nations that we get on the same wavelength. This all reminds me of the old story of the man who was always selling below cost and one of his friends said, "Well, how can you do that and stay in business?"

He said, "I stay up nights and juggle the books."

We are juggling the books a little bit. If we were alone in the world we could set up our balance of trade statement on any basis we pleased. But since we are not alone in the world and since we are trying to relate our figures to the figures of other countries, we had better be talking the same accounting language and the sooner the better.

The CHAIRMAN. Senator Miller?

Senator MILLER. Mr. Chairman, first, I would like to clear up the record on one point.

I believe the statement is made that one of the reasons for recommending the quota approach on textiles was because of our balance of payments problem.

I think the point the Secretary, Secretary Stans, emphasized this morning, or it appeared to be uppermost in his mind, was the very bad impact on unemployment in this country and I think he pointed out there were some 93,000 jobs lost due to textile imports within the first 9 months of this year.

I would like to ask consent of the chairman to have included in the record at this point a letter dated December 22, 1969, from the Department of Agriculture enclosing an analysis entitled "The Impact of the CAP on U.S. Trade."

The CHAIRMAN. Without objection.

(The material referred to follows. Hearing continues on page 345.)

U.S. DEPARTMENT OF AGRICULTURE,
FOREIGN AGRICULTURAL SERVICE,
Washington, D.C., December 22, 1969.

Mr. ROBERT A. BEST,
Finance Committee,
New Senate Office Building, Washington, D.C.

DEAR MR. BEST: In response to your request, we are enclosing two papers which relate to the effects of the Common Agricultural Policy of the European Community on our agricultural trade.

The paper entitled "The Impact of the CAP on U.S. Trade" represents an estimate made by the Department of Agriculture rather than an official study by the Administration on this issue.

We hope that these will prove useful to you.

Sincerely,

D. M. RUBEL,
Assistant Administrator.

DEPARTMENT OF AGRICULTURE ASSESSMENT OF THE IMPACT OF THE CAP ON U.S. TRADE

The Common Agricultural Policy (CAP) of the European Community has hurt U.S. agricultural exports in two ways: (1) by increasing the protection for EC producers and eliminating the opportunity for the United States to compete pricewise in the Common Market; and (2) by subsidizing exports and thus displacing U.S. (and other third country) trade to other markets.

The value of EC food production at constant prices increased from an average of $19.7 billion in 1956–60 to over $31 billion in 1967. Over the same period, intra-Community agricultural trade increased from $1.3 to $3.5 billion, and agricultural sales to third countries from $1.8 to $2.7 billion. Imports during this period from third countries were up from $6.4 to $9.2 billion.

Without a Common Agricultural Policy, much of the increase in the Member States' trade and exports to third countries would not have been feasible, because most of the agricultural producers within the Community are relatively high cost producers in the world market.

The self-sufficiency ratio for all agricultural products in the Community as a whole has remained constant since 1955—at about 81 percent. There has been an increase in this ratio for grains—offset by reductions in other commodities.

GRAINS

The CAP has stimulated grain production in the Community—particularly in France. It also has substantially affected both Member State and world commercial trade in grains.

The Common Agricultural Policy for grains is the core of the Community's agricultural program. It sets producer prices at levels well above world prices. Community prices of grains are about two-thirds above world prices. They are insulated from the influence of world prices by means of fixed threshold or import prices maintained by levies that vary with changes in world prices.

An important ingredient of the system is a built-in preference for trade among member countries of Community grains compared with grains from outside countries. The preference established for producers in the six countries is augmented by keeping threshold prices above prices at which intra-Community trade takes place. This largely explains the increment in intra-Community trade described above.

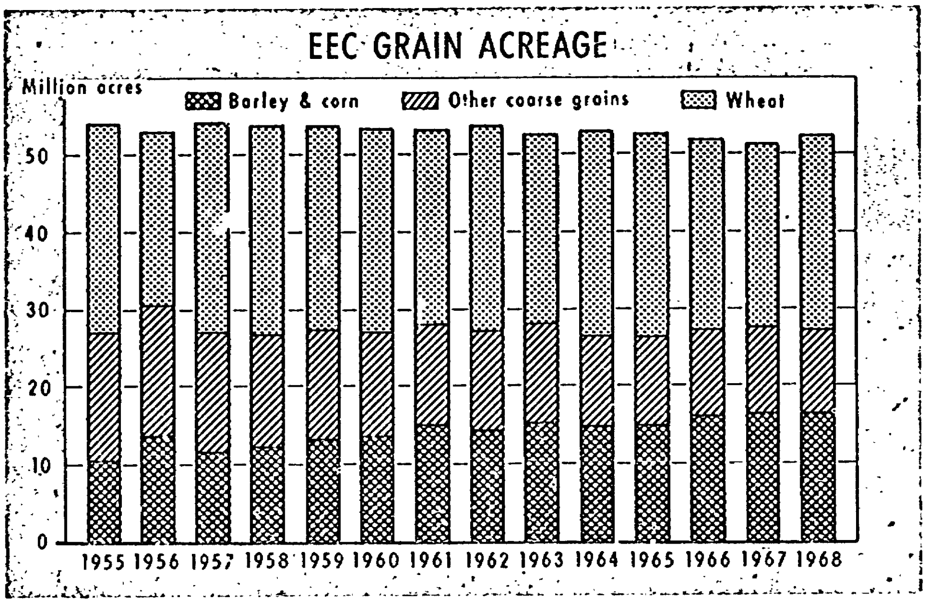
Surpluses produced under the stimulus of the high CAP prices are disposed of in the commercial world market for what they will bring. This is done by means of export subsidies which they call "restitutions." This explains the increment in Community exports to nonmember countries.

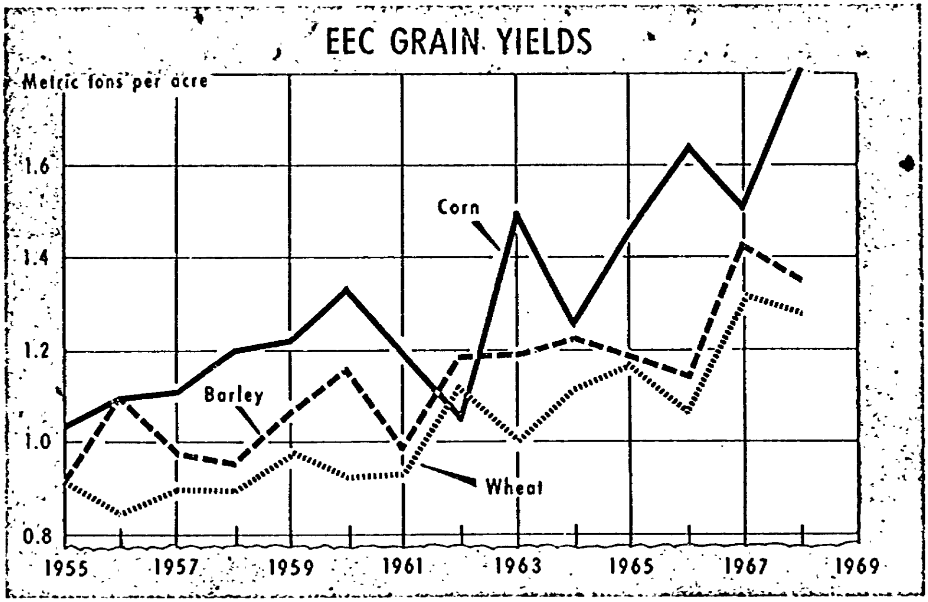
Grain prices in some of the member countries of the Community have been higher than world prices for many years. They were maintained above world levels by various types of national import restrictions. So the maintenance of producer prices at relatively high levels is not new, nor necessarily attributable to the CAP. What is new is the establishment of a system providing for the maintenance of these high prices in all of the Member States without the introduction of any elements of restraint on supplies.

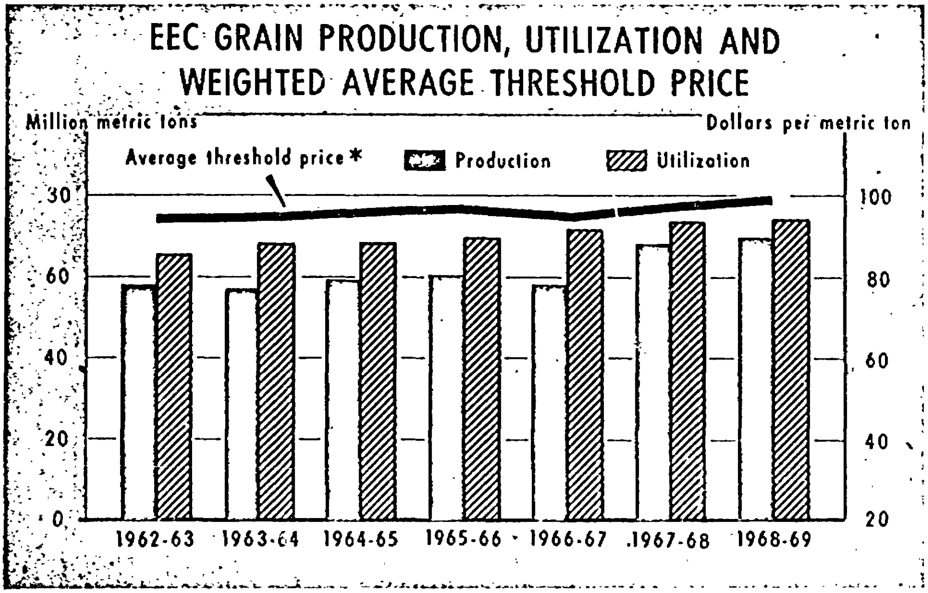
In the past, France, the only surplus grain producer in the Community supported producer prices of wheat under a "quantum" program. Under this program, producers bore the major part of the cost of disposing of excess supplies. Hence there was potential for a restraint to excessive production.

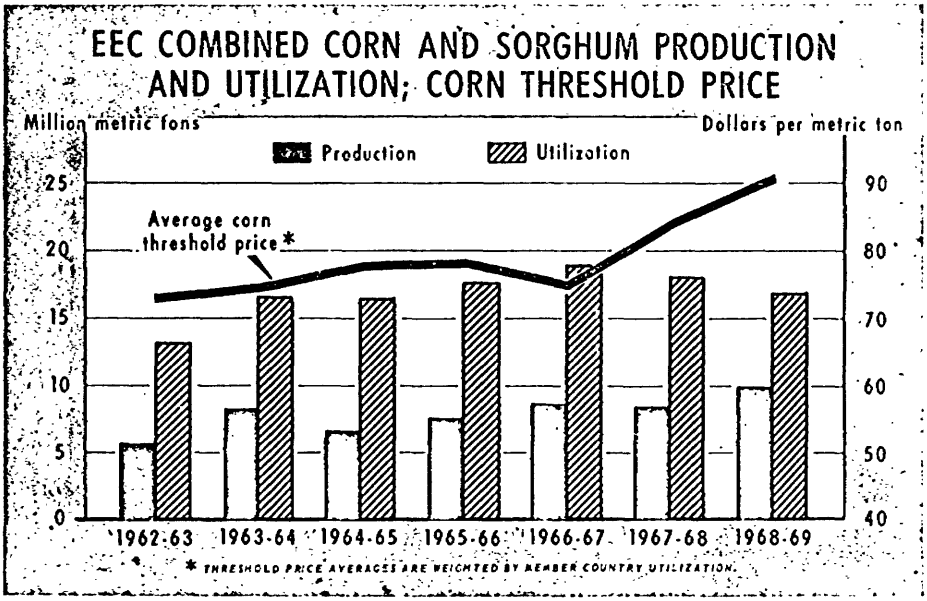
But the present system, through which revenues from import levies and national treasuries enable disposal of excess supplies at world prices, requires no restraints on production in the surplus areas. This, together with the level of prices to grain producers in the Community, is significant in reviewing the continued expansion of total grain production in the Community.

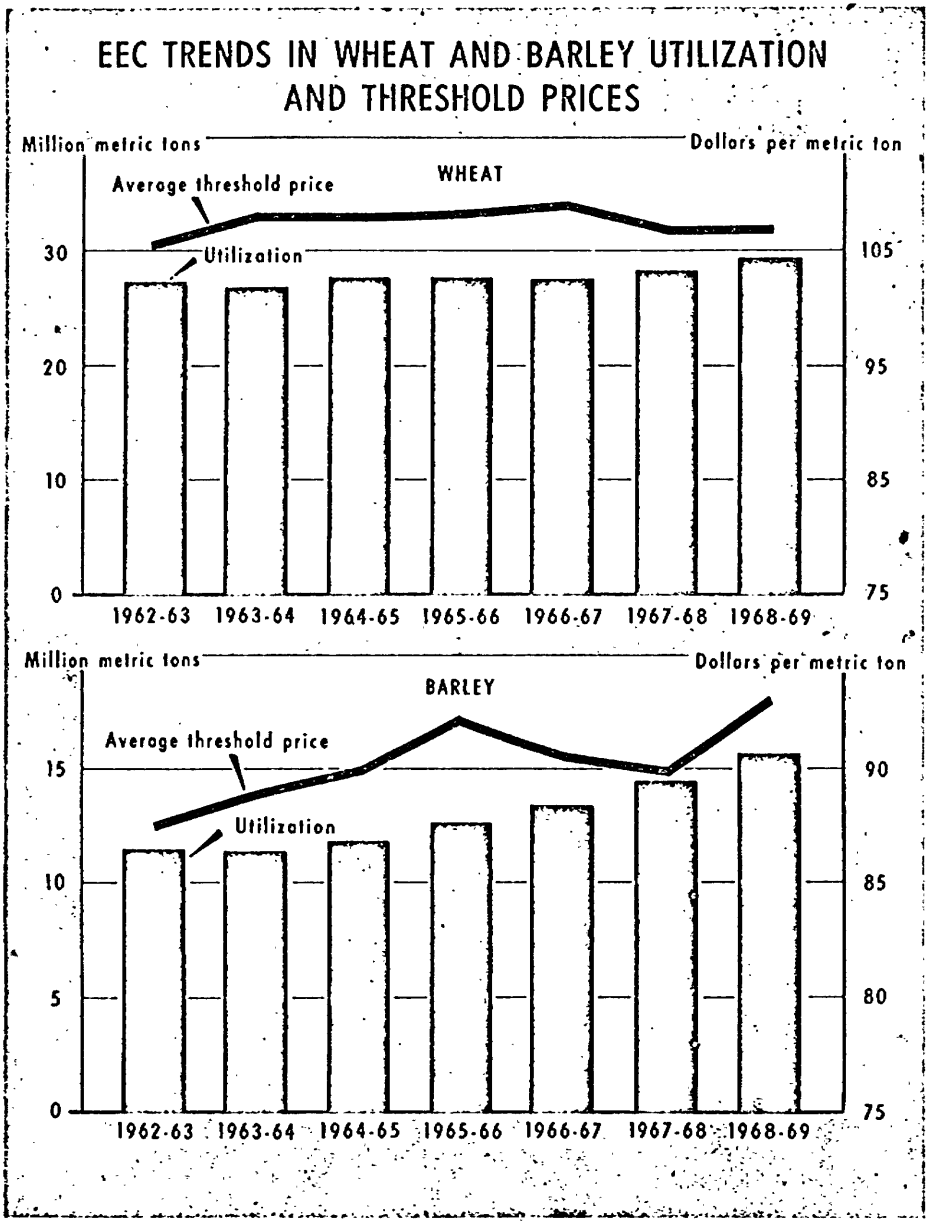
During the past decade grain production in the Community increased by 18 million metric tons—from an average of 51 million during 1956–60 to 69 million tons during the last two years. The CAP contributed to expanded production through raising prices for grains in France and the Netherlands, and for feedgrains in Italy. The stimulus of the CAP augmented the effect of the high rate of technological progress on yields within the Community. Favorable weather, in the past two years, also was a contributor to higher yields.


EEC GRAIN ACREAGE
Million acres
Barley & corn
Other coarse grains
Wheat
50
40
30
20
10
0
1955 1956 1957 1958 1959 1960 1961 1962 1963 1964 1965 1966 1967 1968


EEC GRAIN YIELDS
Metric tons per acre
1.6
1.4
1.2
1.0
0.8
Corn
Barley
Wheat
1955 1957 1959 1961 1963 1965 1967 1969


EEC GRAIN PRODUCTION, UTILIZATION AND WEIGHTED AVERAGE THRESHOLD PRICE
Million metric tons
Dollars per metric ton
Average threshold price*
Production
Utilization
80
60
40
20
0
100
80
60
40
20
1962-63
1963-64
1964-65
1965-66
1966-67
1967-68
1968-69


EEC COMBINED CORN AND SORGHUM PRODUCTION AND UTILIZATION; CORN THRESHOLD PRICE
Million metric tons
Dollars per metric ton
Production
Utilization
Average corn threshold price*
25
20
15
10
5
0
90
80
70
60
50
40
1962-63
1963-64
1964-65
1965-66
1966-67
1967-68
1968-69
* THRESHOLD PRICE AVERAGES ARE WEIGHTED BY MEMBER COUNTRY UTILIZATION.


EEC TRENDS IN WHEAT AND BARLEY UTILIZATION AND THRESHOLD PRICES
Million metric tons
Dollars per metric ton
WHEAT
Average threshold price
Utilization
30
20
10
0
105
95
85
75
1962-63
1963-64
1964-65
1965-66
1966-67
1967-68
1968-69
Million metric tons
Dollars per metric ton
BARLEY
Average threshold price
Utilization
15
10
5
0
90
85
80
75
1962-63
1963-64
1964-65
1965-66
1966-67
1967-68
1968-69

WHEAT

Production of wheat in the Community during the past two crop seasons averaged 31.6 million metric tons, an increase of 8.1 million metric tons from average production during the 1956 to 1960 crop seasons.

Over the same period domestic consumption as food remained about constant, exports to third countries rose by 3.3 milion metric tons, use of wheat for feed went up by 2.5 milion metric tons, and stocks increased 1.5 million tons.

Imports from third countries remained relatively constant (declining by .5 million tons over the period)—because the Community does not raise enough quality wheat required for bread.

Intra-Community trade in wheat for food increased from an average of .7 million to an average of 1.5 million metric tons over the period—with all of the increase taking place during the last two seasons. We can reasonably attribute most of the increase in intra-Community trade to the built-in Community preference of the CAP, displacing sales of third country suppliers. The U.S. sales of filler wheats probably were affected more than sales from other third countries.

FEEDGRAINS

Production of feedgrains in the Community during the past two crop seasons averaged 37.1 million metric tons, an increase of 10 million tons from the average production during the 1956 to 1960 crop seasons.

Over the same period domestic consumption as feed increased by 11.3 million metric tons, and for other uses increased by 1.6 million metric tons.

Imports from third countries increased from 7.8 to 13.3—or 6.5 million metric tons during this period.

Exports to third countries increased by 3.0 million metric tons over this period; while stocks held in the Community built up by 1.6 million metric tons.

In addition, intra-Community trade in feed grains increased gradually from an average of .9 million metric tons to an average of 2.6 million metric tons over this period.

The Community, with its growing surplus of wheat, encouraged producers through denaturing subsidies to utilize more wheat as animal feed. Feed wheat usage has increased from an average of 4.1 million tons during 1956–60 to over 7 million tons this last crop year.

The Community has steadily increased the average threshold price of corn to encourage its own domestic production of corn and to force a greater substitution of wheat and barley for imported corn.

The competitive position of sorghum in three major Community markets (Germany, Netherlands, and Belgium) was seriously worsened by changes in the CAP system. These changes raised the levy on sorghum in relation to other feed grains. A comparison with barley illustrates the change. In these countries the threshold price for sorghum in 1966–67 averaged $6.05 per metric ton less than the threshold price for barley. Now the comparable sorghum threshold price is about $3.00 per ton below that for barley. This enabled other grains, including Community barley and denatured wheat, to replace imported sorghum, especially in poultry feed. The impact of this reduced sorghum imports from Argentina and the United States. United States exports to the EC, which in 1966 were valued at $82 million, declined in 1968 to $16 million.

The Community increased its exports of feedgrains to third countries from a negligible amount in 1958 to 4.6 million tons this year. A recent example of the impact of the Community's feedgrain dumping policy has been their penetration of the Japanese feedgrain market. Two years ago no French barley was sold to Japan. Last year, Japan purchased 27,000 tons of barley from France—about 4 percent of the Japanese total imports. This year, ending in March, the French sold about 417,000 tons of barley to Japan and accounted for over 70 percent of the Japanese import purchases of barley.

It is extremely difficult to measure the effects of all of the forces set in motion by the CAP for grains upon production, consumption, and trade among the member countries and upon trade with third countries. However, a simple method of measuring the influence of the CAP on production within the Community and hence trade with third countries is suggested by self-sufficiency ratios.

The self-sufficiency ratio of grain production in the countries of the European Community remained stable from 1956 through 1960, averaging 84 percent. It began to increase in the mid-sixties, dropped with a short crop in 1966, but rose to 90 and 92 percent in 1967 and 1968.

If the self-sufficiency ratio during the last two seasons had been maintained at the 1956–60 average, grain production in the Community would have averaged 63.4 million tons. Actually, it averaged 68.7 million tons, or 5.3 million tons higher.

All of this increase in self-sufficiency ratio is due to the increase in French grain production. When we examine trends in total French grain production, it is evident that their rate of increase after the establishment of the CAP was more rapid than before. If we compare the two trends in growth of French grain production, and reason that the pre-CAP trend would have been maintained until the present time had there been no CAP, we estimate that by the present season French grain production would have been some 6 million tons less than the present trend.

This increase in growth of French grain production is further illustrated by the use of fertilizer. Before 1961–62 the annual trend in use of fertilizer was about the same in France as in Germany. After 1961–62, the trend in West German use of fertilizer continued at the same rate, but the trend in application of fertilizer in France moved sharply upward.

It is easy to understand why French grain production increased sharply after the establishment of the CAP. In the past, the French Government utilized a quantum program which provided a measure of restraint in supporting prices to French wheat producers. Now, the CAP assures French grain producers not only of a preferential market within the Community but also of the resources with which to dispose of any excessive supplies on world markets.

The increment in grain production in the Community of 5.3 million tons over what it would have been had the pre-CAP self sufficiency been continued clearly was at the expense of imports from third countries. Most, if not all, of this increment was at the expense of trade in feedgrains, especially sorghum. As a residual supplier of feedgrains—and the principal supplier of sorghum—the United States would have acquired at least 60 percent of the increase. We estimate that this loss in trade was worth about $140 million to U.S. feedgrain exports—over one-third of our exports to the Community during 1968.

This CAP system encouraged imports into the Community of substitutes for feedgrains. The lower import charges for such products as cowpeas, tapioca, and corn gluten encouraged substantial increases in their importation and use. The United States participated in this, exporting $28 million worth of corn gluten to the Community in 1968. Cowpeas were imported largely from the Soviet Bloc; tapioca from Asiatic countries.

RICE

The promise and later establishment of the CAP for rice arrested a decline in acreage and production of rice in France and Italy. Rice acreage in these two countries trended downward from 488,000 acres in 1954 to 357,000 acres in 1963. Since 1963 the trend in acreage reversed, and increased by 100,000 acres. Had acreage remained at the 1963 level, production for 1968 and 1969 would have been about 100,000 metric tons less than the 513,000 tons estimated average.

Without the CAP, imports of long grain rice (preferred by consumers) clearly would have replaced the increase in intra-Community trade (some 45,000 tons) and Community rice exports to other countries in 1968–69 would have been some 55,000 tons less than they were.

World rice prices have been sufficiently high recently that the threshold prices have not affected selling prices of long grain rice in EC markets.

Assuming U.S. long grain rice would capture its normal (one-third) share of EC imports, and 10,000 tons of the world trade displaced by the increased EC exports, we calculate that there would have been an increment of $5 million to U.S. rice exports in the absence of the CAP on rice.

COTTON

There is no CAP for cotton. Although our exports of cotton to the Community have declined, this has been the result of shortages of better qualities of U.S. cotton, and of increased competition from foreign growths and manmade fibers rather than due to any actions of the Community.

TOBACCO

A CAP for tobacco has not yet been established. In recent years our exports of tobacco to the Community have increased (largely as a result of the embargo on Rhodesian tobacco). Production of tobacco in the Community has remained stable.

The competitive position of U.S. tobacco in the Community is affected adversely by the changes in the Community tariff structure. Previously Germany and Benelux had specific duties and France and Italy had no duties. Now, the Community ad valorem rate within a minimum and maximum range hurts our high quality tobaccos.

The European Community provides for preferential duties on imports of all tobacco from Greece and some from Turkey. Thus far, this has not been reflected in significant increases in imports into the Community from these countries. But in the future, we can expect them to increase their share of EC tobacco imports.

SOYBEANS AND MEAL

Exports of U.S. soybeans and soybean meal to the European Community increased sharply over the past 15 years. There have been increases in every year except two over the entire period.

The rapid growth in our trade in beans and meal was primarily in response to a shift from small scale to large scale integrated production of pork and poultry utilizing commercial feed mix.

The increased levels of support and protection, provided by the CAP, encouraged expansion of these products. Thus it indirectly contributed to the growth in our trade in soybeans and meal.

Imports of meal plus the meal equivalent of soybeans increased steadily from 1954 through 1963, increased sharply in 1964 and 1965, and then surged to new highs in 1966 and later years.

A very simple method of endeavoring to ascertain the combined effect of the expansion of integrated production on imports of soybeans and soybean meal was to extrapolate the rate of growth of EC imports of meal plus the meal equivalent of beans during the period of 1954 through 1963. Extropolation of this trend suggests total imports by 1969 of 3.4 million metric tons. Actual imports for 1969 are estimated at 4.2 million metric tons.

The extent to which the greater support and protection afforded by the CAP indirectly contributed to this is a matter of judgment. Assuming one-half of this can be attributed to the influence of the CAP, the resulting increment in quantity of U.S. exports of soybeans and meal is about 400,000 metric tons, worth roughly $32 million.

On the other hand, the Community expanded crushing (stimulated by a sharp increase in the duty on oil) which replaced oil formerly imported from the United States. Our average soybean oil shipments to the Community were $6 million before 1962. No wour shipments to the Community are negligible, and the Community is exporting $2 million worth of soybean oil displacing our sales in commercial world markets. Thus our estimated gain in soybeans and meal appears to be only about $20 million.

LARD

The CAP import system has effectively reduced a small (about $3 million) market which existed for U.S. lard in the Community.

More important, the system established a subsidy for Community lard to other markets which has succeeded in undermining U.S. lard sales in the U.K.—our most important lard export market. We calculate the damage to our lard trade in the U.K. at about $10 million annually.

POULTRY MEAT

The CAP for poultry, established on August 1, 1962, was the first of the Community's import system to sharply affect import trade. Our poultry trade to West Germany, our principal market which imported broilers at a fixed duty, was decimated by the establishment of a high levy and gate price. It came at a time when the Community was starting to modernize its broiler industry. Import charges tripled, imports to the Community dropped sharply, and broiler production was stimulated in the Community.

The average annual rate of growth of poultry production in the Community since 1962 has been 7½ percent. In the absence of the CAP, poultry meat production would have expanded less rapidly—probably at a rate of 5 percent yearly. Production by now would have been about 2.8 billion pounds in the Community instead of 3.1 billion pounds—our latest estimate for this year. Under these conditions there would have been a deficit of at least 300 million pounds which would have been filled by imports. Naturally exports from the Community would have been marginal.

On the basis of historical shares, we would have supplied about half of the additional international demand or 150 million pounds more to the Community and third countries than is the case this year. This would have increased our poultry meat exports by about $50 million.

This loss in poultry trade is in part compensated by increased exports of feed. If the Community were to produce 300 million pounds fewer broilers, the U.S. share of the imported feed would have been about 170,000 metric tons of feedgrains and 60,000 metric tons of soybean meal. Other producers of broilers would export part of the Communty's increased broiler imports, and purchase more feed. Our share of that business would be about 85,000 metric tons of feedgrains and 30,000 metric tons of meal. Thus U.S. exports of feedgrains and soybean meal would be reduced by roughly 85,000 and 30,000 metric tons, respectively. The value of these exports is about $6 million. Thus a rough estimate of the cost of the poultry CAP to our trade is about $45 million.

PRUNES

French production and Community consumption have increased over the past 15 years. Imports have remained constant. U.S. exports to the Community have increased and now contribute over 70 percent of all imports. West Germany tariff quotas (at low rates) and French imports of bulk U.S. prunes (at zero duty to blend with their own) have thus far nullified sharply increased external EC tariffs and benefited U.S. exports. The increase in U.S. trade has occurred because the Community traders apparently have been able to circumvent the increase in the Community tariff.

OTHER FRUITS AND VEGETABLES

Although CAPS have been established for a number of fruit and vegetable items, they have not thus far measurably affected our trade with the Community in these products.

For fresh oranges and lemons, the Community has adopted a scheme providing for rebates (of part of the duty) to some countries that guarantee that their exports to the Community will be sold at or above specified minimum prices. This program, in effect throughout 1968 with Algeria, Tunisia, and Turkey, is being extended to embrace other Mediterranean citrus exporters. When Spain and Israel participate, the program will gain greatly in significance. Not only will the rebates provide added incentives to the participating countries, but also they will cement continuing commercial arrangements with Mediterranean suppliers. Thus this scheme will hurt our future citrus trade with the Community.

The CAP provides for a levy on the added sugar in canned fruits, which has hurt the trade from the U.S. and other exporters in an unusual way. To avoid or minimize the levy on added sugar, most canned fruits now are exported to Germany (the principal market) with less than normal amounts of added sugar. German consumers, remembering the pre-CAP heavy syrup densities, are becoming disenchanted with the light syrup product and buying less.

Some new CAPS are being developed, particularly for canned fruits and vegetables, that may affect our future trade in these items.

BEEF

The countries of the European Community limited imports of beef by various types of quantitative restrictions before the establishment of the CAP on beef and veal. With these restrictions wholesale prices of beef within the Community were maintained at levels substantially higher than world prices.

With the advent of the CAP for beef and veal, orientation prices were established at even higher levels and a mechanism established for the imposition of levies in order to insulate market prices in the Community from the influence of world prices.

In an effort to ascertain whether the effect of the CAP on Community beef prices has increased the differential between Community prices and world prices, a comparison was made between the wholesale price of beef in England—increased by 20 percent to adjust for EC import duties—and average wholesale prices of comparable grade beef in the Community. The differential between these two series has widened, especially since 1966. During the three year period 1961–63, the differential between these series was approximately 12½ cents per pound. During the period 1967–69, this differential is estimated at about 16.5 cents per pound. From this we reason that the CAP has had the effect of increasing wholesale prices approximately 4 cents per pound in the Community.

If wholesale prices of beef in the Community were reduced by 4 cents a pound—equivalent to about 7 percent we would expect consumption of beef in the Community to increase about 5 percent or slightly more than 500 million pounds. It is doubtful whether the increment in beef prices, taken by itself, has significantly increased the production of beef in the Community in the past 3 years. It is likely that the high dairy prices have been equally, if not more, influential.

If the Community—the third largest meat importer in the world—had permitted increased imports of beef which by now would amount to about 500 million pounds, this would significantly reduce pressures on the exporting countries to ship beef to the United States. It would not only reduce pressure on Oceania and Central America to ship beef to the United States, but also tend to retard the increase in production of cooked frozen beef in Argentina and other South American countries for shipment to the United States.

Roughly 5.2 billion pounds (carcass equivalent) of beef is traded on world markets and for 1969 we estimate about 1.6 billion pounds will be imported into the United States compared with 1 billion in the U.K. and slightly over 900 million pounds to the EC.

Of course there would be some production response to the additional world market, but this is limited in the short run because some 3 or 4 years are needed to obtain any significant production response. How much would have occurred is a matter of judgment, but we estimate roughly 350 million pounds from the various world beef supplying areas.

This, then, would have resulted in a decrease of at least 100 million pounds (product weight) imported into the United States—worth at least $50 million.

Senator MILLER. This relates somewhat to your testimony, Mr. Secretary, in which you state that "Unless reform of the present agricultural system in the community is accomplished, our export markets to this very large market will shrink further."

The analysis sent over from the Department last December states among other things that as a residual supplier of feed grains and principal supplier of sorghum the United States would have acquired at least 60 percent of the increase.

"We estimate that this loss in trade was worth about $140 million to U.S. feed grain exports, over one-third of our exports to the communities during 1968."

I am advised that since 1966 our exports of agricultural products subject to the variable import levies had declined by 47 percent.

Now, do you know of any retaliatory action we have taken as a result of this?

Mr. PALMBY. Senator Miller, we have not taken any retaliatory action.

Senator MILLER. Well, then, if we come along and take some kind of action on footwear, wouldn't it seem to be retaliation on our part rather than an initiative on our part against which retaliation would be brought?

Mr. PALMBY. Senator, GATT has never made a determination that the variable levy on grains is in violation of GATT. This has been discussed, as you would expect, in the executive branch for quite some time. This is one of the big questions, I think, and it is an open question as regards our relation with the community, because we do not have a binding on grains going into the community as we do on soybeans. That is why I keep drawing this contrast. We have strong bindings on our grains going into the United Kingdom and, of course, that is why we are vitally interested as to what happens when negotiations get under way between the EC and the United Kingdom. But you put your finger on one of the big questions. I cannot state that the GATT has found the variable levy system to be a violation.

Senator MILLER. I appreciate your very frank answer on that.

One last question: Do you know about what the annual consumption of soybeans is in Japan?

Mr. PALMBY. We sold Japan last year about 92 million bushels, and they exported about something over 100 all together, and that——

Senator MILLER. You mean they imported.

Mr. PALMBY. Yes. And they produced a small amount of their own, so I guess breaking this down with a hundred million people their total consumption of soybeans in that country at the moment is a little over 1 bushel per capita. I backed into that statistic but that is about right.

Senator MILLER. In other words, roughly it is a hundred million consumption and we have provided 92 percent of that, and they might have grown how much of their own?

Mr. PALMBY. Their own production is not over 5 million bushels now.

Senator MILLER. So that they are practically a nonproducing country as far as soybeans go?

Mr. PALMBY. Correct.

Senator MILLER. That would be—that would make for a real difference between soybeans in the case of Japan and textiles in the case of the United States, would it not?

The point I am making is that Japan is practically a nonproducer of soybeans so they have to go out of their country to get it. They do not have the capacity to produce soybeans and, therefore, there is a substantial difference between that situation and the textile situation in this country where we produce the great bulk of our consumption of textiles and any undue imports are going to aggravate a basic industry in this country.

Mr. PALMBY. There is a basic difference, I grant you. The Japanese still have a levy of about 16 cents a bushel on soybeans. We would be very desirous of having them remove it as soon as possible. This is something that we keep talking about with them.

Senator MILLER. Is that levy, is that contrary to GATT?

Mr. PALMBY. No, sir.

Senator MILLER. How did they happen to come about that?

Mr. PALMBY. During the Kennedy Round they did agree to cut that levy roughly in half by the end of 1971. They speeded up the removing of about half their original levy on April 1 of 1970 but they still have about a 16-cent levy.

Senator MILLER. I see, and that was in response to our reciprocating in Paris on some of their exports to us, I assume under the Kennedy Round.

Mr. PALMBY. Yes, and, Senator Miller, they still have many quotas, as has been mentioned here, quotas on many items, quota restrictions. We, of course, have been urging the Japanese to remove those restrictions. Some of them are very minor commodities as far as trade volume would be concerned, but they are violating the GATT in continuing many of those restrictions. Consequently, we have been urging that they move toward liberalization much faster than they have been in the past.

Senator MILLER. But you are satisfied there is no violation of GATT as far as their levy on soybeans is concerned?

Mr. PALMBY. It is an import duty, I am told, and we do not look upon it as a violation.

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

The CHAIRMAN. Senator Hansen.

Senator HANSEN. Mr. Chairman, earlier this afternoon I was thinking that I recalled that someone gave some testimony to the effect that we exported not 100 million, but rather 300 million bushels of soybeans to Japan last year, is that figure——

Senator FULBRIGHT. Dollars, wasn't it?

Mr. PALMBY. I think, Senator, I understood him to say bushels, too, but our total export of soybeans during the last marketing year, which ended August 31, as I recall, was 430 million bushels, and of that 430 million Japan took 101 million bushels.

Senator HANSEN. Thank you, Mr. Secretary.

I have one other question.

What is the amount of dairy imports into this country now expressed as a percentage figure of our total domestic production? Would you happen to have that figure?

Mr. PALMBY. Our total production of fluid milk in this country is 116 billion pounds and I believe we will import somewhere around 2 billion pounds.

Senator HANSEN. About how much?

Mr. PALMBY. Two billion pounds and our total domestic production is about 116 billion.

Senator HANSEN. So that would be——

Mr. PALMBY. In the area of 2 percent.

Senator HANSEN (continuing). A little bit less than 2 percent.

Mr. PALMBY. Yes.

Senator HANSEN. Where do dairy products stand now expressed in terms of parity?

Mr. PALMBY. The support price for manufactured dairy products was set, I believe, at $4.66 April 1, the beginning of the dairy product marketing year, and at that time that parity was, I will have to guess on that. We will give you the right figure.

Senator HANSEN. If you would like, submit it later.

Mr. PALMBY. Somewhere around 85 percent and, of course, it has deteriorated in terms of parity since that date.

Senator HANSEN. Would you care to hazard any guess as to the effect these 2 billion pounds of imports may have had on where parity stands on the dairy products?

Mr. PALMBY. I would think a minor effect, and the reason I say that is that a sizable portion of the total dairy imports are in specialty cheeses where in many cases a reasonable case can be made that it contributes to increased consumption of total dairy products in the States.

Senator HANSEN. Thank you, Mr. Secretary.

Mr. Chairman, I refer to the testimony of the distinguished Senator from South Carolina, Mr. Hollings on page 3 of his testimony where he makes this statement:

Japan buys soybeans in the U.S. because the U.S. is the only country capable of supplying the volume Japan needs.

Last year we sold Japan more than 300 million bushels of soybeans. Our next supplier was Communist China with 18.2 million bushels. Mainland China has recently reduced its soybean production, all other nations sold Japan about 13 million bushels last year.

Now, I have also before me the statement of the National Farmers Union and I think they refer to exports—no, I guess the figures I have, I think refer to the European Common Market and with reference to those nations of the Common Market they imported a total of $1,269,000,000 worth of commercial agricultural produce, this included $295 million of oil seeds, soybeans.

Now I am just wondering if there is a little confusion as to what Japan may have imported and what was sent to the European Common Market.

Mr. Palmby. Senator, we will be happy to supply you these exact figures. The $300 million it would be my judgment, that the Senator was referring to, would be more likely to be the c.i.f. value in dollars rather than in bushels. Secondly the European market is a different market than Japan in that we sell them a large amount of meal in addition to soybeans and a large amount of oil so the figures I used in my statement this fiscal year show that they are buying at the rate of $640 million a year, but this includes a good deal of products in addition to beans.

Senator Hansen. Thank you, Mr. Chairman.

(Material referred to by Mr. Palmby follows:)

UNITED STATES: EXPORTS OF SOYBEANS TO SPECIFIED COUNTRIES, QUANTITY AND VALUE, CALENDAR YEAR 1969

	1969 (thousands of bushels)	1969 (thousands of) dollars
Soybeans:		
EC	104,379	277,298
Spain	27,706	73,715
Denmark	12,426	32,552
Canada	46,020	120,045
Japan	75,943	200,257
Taiwan	17,231	46,543
Others	27,474	71,882
Total	311,179	822,292

Source: Bureau of the Census.

Senator Fulbright. Well, Mr. Secretary, you did not finish your statement on page 6, the best part of it is the last three paragraphs. You did not mean to leave them out, did you?

Mr. Palmby. I did not.

Senator Fulbright. I think you ought to read it.

Mr. Palmby. If I may read it, I would be pleased to do so, Mr. Chairman.

I urge therefore that we not take action which would prevent American agriculture from continuing its fight to remove restrictions on its products abroad.

I urge that we not take action which would, through retaliation, curb present exports of American agricultural products.

Finally, I urge that we not join those countries in the world who seek to find a solution to their domestic problem by exporting them to other nations of the world through restrictive import policies. American agriculture needs a liberal trading climate in the world in order to continue to prosper.

I respectfully request the committee to consider carefully and to weigh judiciously the legislation before it in the light of remarks I have made on behalf of the Department of Agriculture.

The CHAIRMAN. Thank you very much.

Senator HANSEN. Mr. Chairman, if I could just offer one more question to the Secretary: There has been a considerable amount of testimony here that has raised objections to this bill contending it has been the purpose of the Government to increase exports and in some respects this bill would not achieve that goal, and I ask the Secretary if it is not a fact that during President Johnson's administration that he imposed at one time an embargo on the export of cattle hides when it appeared as though an inordinate amount of those hides in the opinion of the administration at that time were going to be shipped to Japan and that this would result in raising the price of shoes.

I ask this question because I am in the cow business and I think I can recall that it knocked the price of livestock about five or six dollars per head. Would it be the purpose, does the Secretary know, of this administration, to resist that sort of effort if the temptation were to come about again or might it choose to follow what President Johnson then directed Secretary Freeman to do?

Mr. PALMBY. Senator Hansen, there are always many forces at work in this Government and in this country. If I could answer it this way: We have in the Nation at the moment a corn blight problem in that our corn crop has been affected and infected with corn blight. As a result of this the crop is a bit disappointing in volume. There have already been some requests that we reanalyze our export policies on grain. Questions are being asked: Should there be action taken of a restrictive nature? Should the Commodity Credit Corporation not release its stocks? Should they not price them at market price or at a formula whichever is higher? We have constantly made the statement that a country like Japan relies upon the United States for 70 percent of its feed ingredients, roughly, and we think that we must do everything possible to continue to service that market, not only selfishly but because we have helped them, through encouraging livestock feeding, to build up a large poultry industry in Japan as well as a big swine industry. That is the best I can answer. I think any action that is taken without a great deal of forethought will not be in the best interests of our farmers.

Senator HANSEN. Thank you, Mr. Secretary.

Senator MILLER. Mr. Chairman, may I raise one additional question?

Mr. Secretary, for the record, would you provide the committee with the views of the Department of Agriculture on a proposal to change the duty-free status of tapioca, tapioca flour, and cassava?

I have a letter here from the Corn Refiners Association which states that once imported into this country, tapioca starch competes directly with the corn starch manufacturer here, and they point out in 1947 in the GATT negotiations the duty-free status of tapioca, tapioca flour, and cassava was bound in our tariff schedule. Imports of tapioca starch at that time were running around a hundred million pounds.

Since then they have more than doubled and in some years, recent years, tripled. Imports in the last 2 years have been around 200 million pounds and as recently as 1967 imports were over 300 million pounds, so could you give us a statement for the record on that?

Mr. PALMBY. Very pleased to.

Senator MILLER. Thank you.

(Information submitted by the Department at this point and the letter from the Corn Refiners Association referred to by Senator Miller, follow:)

STATEMENT OF THE DEPARTMENT OF AGRICULTURE ON A PROPOSAL TO CHANGE THE DUTY-FREE STATUS OF TAPIOCA, TAPIOCA FLOUR AND CASSAVA

The Department of Agriculture sees nothing in the pattern of imports in recent years of tapioca, tapioca flour and cassava that would warrant a change in the duty-free status of these commodities. Imports have fluctuated widely since World War II but they have never reached the levels of the late 1930's and during the past few years they have declined rather sharply from the levels reached in the mid-1960's.

Imports of these products averaged over 340 million pounds annually during the 1937–41 pre-war period. They dropped sharply during World War II and remained low for several years thereafter. A renewed increase reached its peak in the mid-1960's when imports approached pre-war levels. They dropped sharply in 1968 to 193 million pounds and increased only very slightly in 1969 to 195 million pounds.

CORN REFINERS ASSOCIATION, INC.,
Washington, D.C., October 12, 1970.

Senator RUSSELL B. LONG,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: The Corn Refiners Association very much appreciates this opportunity to present its views with regard to the duty-free status of tapioca, tapioca flour, and cassava.

As you know, our Association is the national organization of the American wet corn milling industry. Our members include American Maize-Products Company with a plant in Roby, Indiana; Anheuser-Busch, Inc., whose plant is located in Lafayette, Indiana; Clinton Corn Processing Company (a division of Standard Brands, Inc.) located at Clinton, Iowa; CPC International Inc. with plants located at Argo and Pekin, Illinois, North Kansas City, Missouri, and Corpus Christi, Texas; The Hubinger Company located at Keokuk, Iowa; National Starch and Chemical Corporation with a plant at Indianapolis, Indiana; Penick & Ford, Limited (a subsidiary of R. J. Reynolds Industries, Inc.) with a plant at Cedar Rapids, Iowa; A. E. Staley Manufacturing Company with plants at Decatur, Illinois, and Morrisville, Pennsylvania; and Marschall Division, Miles Laboratories, Inc., whose plant is at Granite City, Illinois. Our industry is the Nation's largest food and industrial user of corn, and in any given year our industry's purchases of corn are a major factor in maintaining corn prices for farmers.

The principal products of our industry are corn oil, starch, corn syrup, corn sugar (dextrose) and other starch derivatives. These products are used throughout American industry, particularly in the manufacture of paper, textiles, food, drugs and adhesives. Products of the wet corn milling industry are also essential to national defense. They are essential to the manufacture of explosives, airplane engines, tanks, shells and hand grenade casings. They are used in missiles, uniforms, and mess kits, and are a part of every meal a serviceman eats from the barracks to combat rations in the field.

Our Association has always supported expanded trade among all nations of a fair and equitable basis. We would point out, however, that where America's efforts toward free trade are barred by trade barriers erected in other nations, a serious imbalance of trade can result. Essentially, that is the situation that now exists with regard to tapioca starch.

Among major industrial nations, only the United States does not have a duty on the import of tapioca starch. This unique situation coupled with the variable duties of the European Common Market means that the United States attracts an ever-increasing volume of the world's output of tapioca starch. Once imported into this country tapioca starch competes directly with corn starch manufactured here. In essence, that means that our international trade in tapioca starch is financed by the profits and jobs of the American industrial firms affected.

In 1947, in the GATT negotiations, the duty-free status of tapioca, tapioca flour and cassava was bound into our tariff schedules. Imports of tapioca starch at that time were running at around 100 million pounds. Since then they have more than doubled and in some recent years have tripled. Imports in each of the last two years have been around 200 million pounds, and as recently as 1967 imports were over 300 million pounds.

Competition between imported tapioca starch and the American corn refining industry has been especially severe with regard to some products. The Tariff Commission's study of 1959, for example, disclosed that open market sales of domestic corn starch to adhesive and dextrine manufacturers amounted to about 20 million pounds in 1958. This was just slightly more than the amount of imported starch sold to such manufacturers.* Thus, in the short space of a 10 year period the imported starch had gained a position equal to that manufactured here despite significant improvements in our technology, efficiency and ability to compete.

Thailand and Brazil are currently the major exporters of tapioca starch, but a number of other less-developed nations have the potential to export this product in large quantities. Indonesia, formerly the world's major tapioca starch exporter, and several African countries are included in this group. Because of the current European tariff wall and variable levies on tapioca starch, it is likely that any increased volume from the exporting countries would flow directly to the United States.

The United States' position with regard to tapioca starch imports has become more difficult in recent years because the Common Agricultural Policy (CAP) within the European Common Market has raised new barriers to tapioca starch imports. The CAP has provided nearly complete protection for farmers by using a variable levy system to eliminate the competitive price advantage of imported agricultural products. The variable levies even apply to products the EEC does not produce if such products compete in any way with domestic production. For this reason, tapioca starch has recently been subject to tariffs as high as 50 percent, in striking contrast to its duty-free treatment by the United States.

Other countries have managed to block tapioca starch imports by other means. In Japan, for example, the device of import control licenses is employed, and Japanese imports of tapioca starch have been limited to a small fraction of the United States imports.

We believe that United States negotiators should have the authority and responsibility to negotiate the removal of unreasonable foreign tariff barriers. If this authority is to have any real meaning, however, it must be strongly backed up in our tariff laws. Considerations of basic fairness dictate that American industries that have no tariff protection against imports should have the assistance of the United States Government to insure that other countries are not able to take unfair advantage of us.

This position accords with two fundamental goals of the United States trade policy. It would contribute to the expansion of free world trade and provide greater access to foreign markets for products of less-developed countries.

Our industry has borne the brunt of a unilateral free trade policy in the face of contrived protectionist barriers abroad. We have been seriously disadvantaged because of the flood of tapioca starch imports into our country. We are hopeful that this situation can be relieved by reducing trade barriers in other countries, but if this cannot be achieved, we urge that the only fair solution is the imposition of a duty on tapioca imports, as we have done on all other major competitive starch imports, or the adoption of a quota.

Very truly yours,

ROBERT C. LIEBENOW,
President.

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*United States Tariff Commission Report on Starch Investigation #332-37, March 1960, p. 38.

The CHAIRMAN. Thank you very much Mr. Palmby.

We will insert at this point, two telegrams received by Senator Harris from the National Association of Wheat Growers and the Oklahoma Wheat Growers Association.

(The telegrams follow:)

WASHINGTON, D.C., *October 10, 1970.*

Hon. FRED HARRIS,
Senate Office Building,
Washington, D.C.

The National Association of Wheat Growers is opopsed to the 1970 Trade Act (Mills bill), primarily because of our vulnerableness to retaliation from foreign buyers. We urge your support of our position.

E. L. HATCHER,
President, National Association of Wheat Growers.

ENID, OKLA.

Senator FRED HARRIS,
Senate Office Building,
Washington, D.C.

Board of Directors of Oklahoma Wheat Growers Assn., due to effect on agricultural exports, disapproves trade bill that we understand is being recommended by Senator Talmadge. Would appreciate further information.

FRED R. MERIFIELD,
Executive Secretary.

The CHAIRMAN. Is Representative Sam Gibbons here?

STATEMENT OF HON. SAM M. GIBBONS, U.S. REPRESENTATIVE FROM THE SIXTH CONGRESSIONAL DISTRICT OF FLORIDA

Mr. GIBBONS. Yes, sir.

The CHAIRMAN. Will you please take a seat?

Mr. GIBBONS. Thank you, Senator Long.

The CHAIRMAN. You want to testify with regard to the agriculture part of this bill.

Mr. GIBBONS. I want to cover the whole bill. I want to talk a little about that, yes, sir.

Senator Long, I am a member of the Ways and Means Committee although not a very important one. I am the last member of the committee on the Democrat side. I have been on it for almost 2 years. It will be many years before you put up with me as a conferee who is concerned about these vital measures, but this is one battle that has worried me deeply because I feel America is about to make a wrong move, a move that has haunted this country almost 200 years.

One of the reasons we fought the American Revolution was over trade. One of the reasons we fought the Civil War was over trade; certainly the War of 1812 was over trade. No one can reasonably doubt and nobody really challenges that one of the underlying causes of World War II was the effect of the Smoot-Hawley tariff. It had a disastrous effect on our own economy and on the world's economy. In the 25 years since the end of World War II we have placed on the line the lives of 100,000 young Americans who have gone overseas and who have not returned alive. They have given their lives in behalf of an idea that we must live together in this world, we must live together peaceably, we must be able to carry on a commercial intercourse with each other. I hate to see us go down the way that history has shown us in the past that a protectionist trade policy is disastrous for the internal economy of this country, and disastrous for the world.

I would like to take the bill title by title, if I may, and just tell you about the reason why seven of us on the Ways and Means Committee dissented on this bill.

We had a larger dissent on this bill than we ever had before in the past—the most serious dissent that I have ever seen.

In title I, of course the most objectionable part in it is the matter concerning oil. As you know, the administration shortly after it came into office, appointed a committee at Cabinet level, a task force consisting of the most distinguished Secretary that we have to study the oil import quota situation. It was the gist of that Committee's decision that the oil import quota as we have known it in the past should be modified. There is dispute about how much the oil import quota is costing the American consumer, some will say $7 billion some $5 billion, some will say $1 billion and others will try to equate that, but whatever the cost is, it is very high. It is one of the things that that very scholarly work of the Oil Import Quota Committee studied, a bound volume about an inch and a half thick, and they suggested that the President be given great latitude in trying to solve this problem. I suggest to you that the House bill, which is intended to be attached to the social security bill over here, flies in the whole face of that suggestion. We should grant to the President flexibility which he needs to solve this very vexatious problem of soil and security and consumers and not tie his hands.

Title II, of course, pertains primarily to textile and to shoe quotas.

Now, the administration had the chance to examine the shoe quota situation. There again they formed a very intelligent, high level commission to study the shoe situation. They filed a report, and they said that the shoe people had no case, that they did have some injury but the injury was due to a lot of things other than foreign trade, that foreign trade was a factor and, as you know, they are now being given consideration for other types of remedies to their problems.

But the administration has reluctantly endorsed the textile and garment quota situation, and I think that in perhaps one of the most serious parts of this bill. I think the whole question gets down to whether or not really the textile industry has a case.

Is it entitled to more protection than any other industry in America has ever received other than the oil industry or should it be out and compete, the textile and garment industry, with all the other industries in the United States? If textiles and garments get a mandatory import quota under GATT or any of the other relationships we have, somebody is going to have to pay the price. Either the American consumer or another American industry that is now engaged in the export business, or wishes to engage in the export business, will pay the price.

I was surprised to hear Senator Hollings say he thought that the cotton quota had worked. Well, the cotton quota has not worked, gentlemen. The ratio of imports to domestic consumption in the cotton industry has increased since 1960 from 6 percent to 11.7 percent in 1969. So while we have had this cotton textile quota it has not cut down the amount of imports of cotton fiber into this country. In fact, the imports of cotton fiber in this country have practically doubled, almost tripled in size since that time.

I would point out to the committee that the ratio of imports to domestic consumption of textiles has only increased by 2 percent in the last 10 years. Ten years ago the ratio of consumption to domestic imports or to foreign imports was 6.3 percent, and now it is only 8.5 percent.

Senator FULBRIGHT. What is that figure?

Mr. GIBBONS. During the 10 years from 1960 to 1969 the ratio of imported textile fiber into this country from foreign countries has only increased from 6.3 to 8.5 percent or just a little over 2 percent.

Senator FULBRIGHT. What is the fiber—do you mean this is all textile goods?

Mr. GIBBONS. That means cotton, wool and manmade.

Senator FULBRIGHT. The cloths.

Mr. GIBBONS. The cloths.

Senator FULBRIGHT. These are the textiles and apparels made from both synthetic and natural fibers.

Mr. GIBBONS. Yes.

For instance, manmade fibers, Senator, 10 years ago amounted to 1.7 percent of our consumption. Manmade fibers in 1969 amounted to 4.6 percent of our domestic consumption.

Senator FULBRIGHT. Is that the total consumption of everything or just of synthetic?

Mr. GIBBONS. No, sir; that is just of synthetics.

Senator FULBRIGHT. Just of synthetics?

Mr. GIBBONS. But they only went up from practically nothing in 10 years ago, you know we had no dacron and cotton shirts. We did not have dacron and cotton sheets on our beds, we did not have all the synthetic fibers we now have, synthetic fibers have really become popular in the last few years, and the importation of these has gone up but its ratio of imports to domestic consumption has gone up really very little.

In fact, right now of all the manmade fibers that are consumed in the United States, over 95 percent are American made.

Now, of all the fiber, cotton, wool, manmade, and anything else you could think of including hair, of all of it that it is consumed in this country, 92½ percent of it is made right here in this country still. This industry has not been penetrated to the great extent that is talked about.

If you convert pounds of fibers into dollars worth of fiber, you will find that less than 4 percent of the fiber that we consume on a dollar basis is foreign fiber and that the other 96 percent of it is domestic fiber made right here or grown right here or fabricated right here in this country.

Senator FULBRIGHT. How much of that is wool, do you know?

Mr. GIBBONS. Yes. We have always been great importers of wool.

Senator FULBRIGHT. I know.

Mr. GIBBONS. Ten years ago, the penetration of foreign wool as a percent of consumption was 21.7 percent. Today, or in 1969, it was 27.2 percent.

Senator FULBRIGHT. What I was really getting at is what percentage of that 4 percent in value could you allocate to wool? I was just curious if you happen to know.

Mr. GIBBONS. I do not have those figures.

Senator FULBRIGHT. Would it be as much as 1 percent or a half of 1 percent, would you guess?

Mr. GIBBONS. I just would rather not guess, Senator, I don't have the correct figures.

Senator FULBRIGHT. We traditionally have been a wool importer.

Mr. GIBBONS. Yes, sir; we have been a wool importer for a hundred years.

Senator FULBRIGHT. That is what I thought.

Senator MILLER. Will the Senator yield at that point? You testified from 1960 to 1969 the imports went up from 6.3 to 8.5 percent in that 10-year period.

Mr. GIBBONS. In that 10-year period.

Senator MILLER. What was the ratio in 1969?

Mr. GIBBONS. In 1969 it was 8.5.

Senator FULBRIGHT. Is that bulk or dollars?

Mr. GIBBONS. Everything, that is in pounds, that is cotton, wool, and manmade fiber.

Senator FULBRIGHT. When you shift from one to the other, I get lost.

I am not sure you are talking about pounds or dollars.

Mr. GIBBONS. I am talking about pounds now. The 8.5, Senator Fulbright, contrasts with 4 percent as far as dollars are concerned. So the dollar volume is a much smaller percentage than the poundage.

Senator BENNETT. May I ask a question?

When you are talking about wool, are you talking about raw wool or are you talking about cloth?

Mr. GIBBONS. The whole thing, in pounds, sir.

Senator BENNETT. Well, you cannot include raw wool and cloth in the same figure.

Mr. GIBBONS. As far as measuring them, sir, as to its impact on our entire economy, let me say the figures are available to break them down as you ask for, Senator Bennett. I just didn't bring them over.

I have them in my office.

Senator BENNETT. I don't think there are any figures that take raw wool that comes from Australia and adds it to the finished cloth that comes from Japan or Great Britain, and some wool that comes from Australia is woven into cloth in the United States, so you have got a confusing figure here.

Mr. GIBBONS. No, we have all those figures, sir. This country, first of all, we do not consume as much wool per person as we used to consume. I have those figures also. The per capita consumption of wool has gone down substantially in the United States, as the per capita consumption of manmade fibers has gone up. The per capita consumption of cotton has gone down.

Senator BENNETT. That is not the problem. Would you supply us a figure or will you tell us for the record whether you are talking about woven cloth or whether you are talking about raw wool.

Mr. GIBBONS. I am talking about just——

Senator BENNETT. You cannot talk about the combination of the two.

Mr. GIBBONS. No, I am talking about all fiber, sir. I agree with you that mine is a conglomerated figure but the figures are available, and I would supply them if you would allow me to, of what the breakdown is.

I just did not bring that material with me, sir.

Senator MILLER. That 8.5 percent, I understand, generally speaking is cloth; is that correct?

Mr. GIBBONS. Yes, sir; it is, generally speaking, cloth.

Senator MILLER. All right.

Now what about apparel?

Mr. GIBBONS. I have the figure on apparel. I did not bring them with me, though, sir. But let me——

Senator MILLER. Will you supply those for the record, too.

Mr. GIBBONS. Sir?

Senator MILLER. When you get the information Senator Bennett requested, would you please supply the apparel figures for the record?

Mr. GIBBONS. Yes, sir, in fact they could be broken down by shirts and socks and everything.

(Information supplied by Congressman Gibbons follows. Hearing continues on p. 360.)

TEXTILES: U.S. IMPORTS, EXPORTS, DOMESTIC CONSUMPTION, AND RATIO OF IMPORTS TO CONSUMPTION, BY FIBER, 1960-69

[In millions of pounds]

	Imports				Exports				Domestic consumption [1]				Ratio of imports to domestic consumption (percent)			
	Total	Man-made fibers	Cotton	Wool	Total	Man-made fibers	Cotton	Wool	Total	Man-made fibers	Cotton	Wool	Total	Man-made fibers	Cotton	Wool
1960	415.7	31.3	252.3	132.1	328.8	90.8	233.3	4.7	6,635.6	1,818.3	4,209.9	607.4	6.3	1.7	6.0	21.7
1961	339.8	23.5	188.9	127.4	330.1	86.4	239.2	4.5	6,632.9	1,997.8	4,031.2	603.9	5.1	1.2	4.7	21.1
1962	486.0	30.6	309.8	145.6	315.2	90.5	220.3	4.4	7,280.8	2,358.6	4,277.5	644.7	6.7	1.3	7.2	22.6
1963	493.0	36.2	304.3	152.5	310.5	97.1	207.8	5.6	7,497.0	2,726.9	4,136.7	633.4	6.6	1.3	7.4	24.1
1964	491.3	50.0	300.2	141.1	328.7	108.5	213.2	7.0	8,011.1	3,114.3	4,331.4	565.4	6.1	1.6	6.9	25.0
1965	595.8	79.0	360.7	156.1	315.5	129.1	173.7	12.7	8,835.4	3,570.5	4,664.5	600.4	6.8	2.2	7.7	26.0
1966	776.3	123.1	510.3	142.9	339.6	140.0	189.5	10.1	9,487.1	3,975.1	4,951.3	560.7	8.2	3.1	10.3	25.5
1967	703.9	138.8	443.4	121.7	330.0	133.0	188.4	8.6	9,400.1	4,242.4	4,678.0	479.7	7.5	3.3	9.5	25.4
1968	813.1	193.3	473.8	146.0	326.5	129.0	188.2	9.3	10,307.2	5,360.1	4,432.1	515.0	7.9	3.6	10.7	28.3
1969	874.9	257.5	488.0	129.4	387.4	146.1	232.4	8.9	10,305.6	5,647.9	4,181.2	476.5	8.5	4.6	11.7	27.2

[1] Domestic consumption equals mill consumption plus imports less exports of semimanufactured and manufactured products.

Source: Textile Organon, March 1970, p. 50.

WEARING APPAREL OF COTTON, WOOL, AND MANMADE FIBERS: U.S. PRODUCTION, IMPORTS FOR CONSUMPTION EXPORTS OF DOMESTIC MERCHANDISE, AND APPARENT CONSUMPTION, 1961-69

[In millions of pounds, raw-fiber equivalent]

Year and fiber	Production	Imports	Exports	Apparent consumtpion	Ratio (percent) of imports to consumption
1961:					
Cotton	1,809.9	60.3	14.5	1,855.7	3.2
Wool	368.8	13.7	.5	382.0	3.6
Man made	704.1	5.0	7.6	701.5	.7
Total	2,882.8	79.0	22.6	2,939.2	2.7
1962:					
Cotton	1,890.7	91.8	13.5	1,969.0	4.7
Wool	365.4	22.8	.4	387.8	5.9
Man made	809.4	10.4	6.3	813.5	1.3
Total	3,065.5	125.0	20.2	3,179.3	3.9
1963:					
Cotton	1,880.8	94.2	14.4	1,969.6	4.8
Wool	365.4	28.0	.4	445.2	6.3
Man made	906.3	12.8	6.6	912.5	1.4
Total	3,152.5	135.0	21.4	3,318.3	4.1
1964:					
Cotton	1,921.0	107.6	17.4	2,011.2	5.4
Wool	368.4	28.4	.6	396.2	7.2
Man made	1,052.1	21.8	7.2	1,966.7	2.0
Total	3,341.5	157.8	25.2	3,474.1	4.5
1965:					
Cotton	1,890.7	119.9	18.0	1,992.6	6.0
Wool	372.2	35.4	.9	406.7	8.7
Man made	1,205.6	30.8	7.5	1,228.9	2.5
Total	3,468.5	186.1	26.4	3,628.2	5.1
1966:					
Cotton	1,872.1	123.1	20.4	1,974.8	6.2
Wool	358.0	33.0	.9	390.1	8.5
Man made	1,387.5	37.6	7.6	1,417.5	2.7
Total	3,617.6	193.7	28.9	3,782.4	5.1
1967:					
Cotton	1,690.4	133.1	23.2	1,800.3	7.3
Wool	330.8	30.8	1.0	360.6	8.5
Man made	1,512.7	61.1	8.0	1,565.8	3.9
Total	3,533.9	225.0	32.2	3,726.7	6.0
1968:					
Cotton	1,629.7	140.0	27.5	1,742.2	8.0
Wool	345.2	41.4	1.0	385.6	10.7
Man made	1,842.5	91.6	9.7	1,924.4	4.7
Total	3,817.4	268.1	38.2	4,047.3	6.6
1969:					
Cotton	(1)	142.7	35.8	(1)	(1)
Wool	(1)	41.5	1.0	(1)	(1)
Man made	(1)	144.0	12.6	(1)	(1)
Total	(1)	328.2	49.4	(1)	(1)

[1] Not available.

Source: Production compiled from Textile Organon, January 1969; other data compiled from official statistics of the U.S. Department of Agriculture.

MANUFACTURES OF WOOL, EXCEPT CARPETS AND RUGS: A METHOD OF ESTIMATING THE RATIO OF IMPORTS TO U.S. PRODUCTION AND CONSUMPTION, 1961-69

Year	Production [1] (thousand pounds)	Imports [2] (thousand pounds)	Exports [2] (thousand pounds)	Apparent consumption (thousand pounds)	Ratio of imports to— Production (percent)	Ratio of imports to— Consumption (percent)
1961	370,349	43,030	2,087	411,292	11.6	10.5
1962	395,594	62,326	2,096	455,824	15.8	13.7
1963	395,619	70,074	2,248	463,445	17.7	15.1
1964	370,751	61,712	3,030	429,433	16.6	14.4
1965	442,103	92,076	5,840	528,289	20.8	17.4
1966	394,182	81,238	5,346	470,074	20.6	17.3
1967	339,511	72,464	5,699	406,276	21.3	17.8
1968	329,602	103,280	4,536	428,346	31.3	24.1
1969 [3]	318,000	83,491	3,723	397,768	26.3	21.0

[1] Production of yarn (except carpet yarn) principally wool, reprocessed wool, or reused wool by weight, and production of nonwoven wool felts. The production of wool yarn is estimated for 1969 and the production of nonwoven wool felts is estimated for 1961-62 and 1966-69.
[2] Derived from data published in "Wool Situation," U.S. Department of Agriculture. Data for tops and advanced wool, noils, and wastes have been excluded as being raw materials; data for carpets and rugs have also been excluded. Imports of so-called loophole fabrics have been included, but imports of woven wool fabrics shipped from the Virgin Islands to mainland United States as products of the islands have not been included. Imports and exports of the items included, except yarn, have been increased by 2 percent to allow for material lost in processing yarn into fabrics and finished articles. If the imports and exports had been increased by 10 percent, the ratio of imports to consumption would have increased by about 1 percentage point.
[3] Preliminary.

Source: Production of yarn, "Current Industrial Reports," series M22F; production of nonwoven wool felts, "Current Industrial Reports," series M22T, except as noted; imports and exports, as indicated above.

WOOL YARN, FOR SALE: U.S. PRODUCTION, IMPORTS FOR CONSUMPTION, EXPORTS OF DOMESTIC MERCHANDISE AND APPARENT CONSUMPTION, 1961-69

Year	Production [1] (thousand pounds)	Imports [2] (thousand pounds)	Exports (thousand pounds)	Apparent consumption [3] (thousand pounds)	Ratio of imports to consumption (percent)
1961	162,473	5,429	232	167,670	3.2
1962	167,583	8,892	221	176,254	5.0
1963	167,388	9,802	229	176,961	5.5
1964	159,558	7,809	228	167,139	4.7
1965	185,112	10,890	185	195,817	5.6
1966	185,316	12,481	273	197,524	6.3
1967	142,415	8,977	331	151,061	5.9
1968	155,533	10,051	367	165,217	6.1
1969	[4] 149,000	7,726	594	156,132	4.9

[1] Including yarn produced on commission
[2] Including angora rabbit hair yarn.
[3] Production plus imports less exports.
[4] Estimated.

Source: Compiled from official statistics of the U.S. Department of Commerce, except as noted.

TEXTILES, WHOLLY OR IN CHIEF VALUE OF MANMADE FIBERS: U.S. GENERAL IMPORTS,[1] BY KIND, 1964-69

[In thousands of units of quantities]

Groupings [2]	Kind (commodity description)	1964	1965	1966	1967	1968	1969
200A	Textured yarns.....pounds..	(3)	(3)	249	4,303	20,425	11,588
201A	Cellulosic continuous filament yarns.....do....	5,062	6,753	3,856	7,209	14,072	4,109
202A	Noncellulosic continuous filament yarns.....do....	3,090	7,506	10,644	16,705	25,472	24,259
203A	Cellulosic yarns of noncontinuous fibers.....do....	320	353	1,283	2,117	1,736	1,632
204A	Noncellulosic yarns of noncontinuous fibers.....do....	195	51	908	1,703	3,523	7,433
205A	Other yarns of manmade fibers.....do....	295	716	1,828	1,651	1,339	1,751
206A	Woven fabrics of cellulosic continuous filament yarns square yards..	35,001	43,550	46,916	48,302	50,280	49,062
207A	Woven fabrics of cellulosic noncontinuous fibers..do....	13,984	19,224	42,228	25,233	10,795	17,281
208A	Woven fabrics of noncellulosic continuous filament yarns.....square yards..	29,844	64,002	70,887	62,895	83,176	108,175
209A	Woven fabrics of noncellulosic noncontinuous fibers ....do....	3,567	30,426	85,772	25,970	37,198	23,479

TEXTILES, WHOLLY OR IN CHIEF VALUE OF MANMADE FIBERS: U.S. GENERAL IMPORTS,[1] BY KIND, 1964-69—Con.

[In thousands of units of quantities]

Groupings[2]	Kind (commodity description)	1964	1965	1966	1967	1968	1969
210A	Other woven fabrics, n.e.s.[4] ... do	7,669	11,500	17,363	13,414	22,834	26,769
211A	Knit fabrics ... pounds	792	2,495	3,241	4,401	4,836	6,668
212A	Pile or tufted fabrics ... square yards	688	1,232	2,332	2,406	3,852	9,919
213A	Specialty fabrics ... pounds	3,307	4,869	5,926	5,983	13,151	13,543
214A	Gloves and mittens ... dozen pairs	2,417	2,640	2,827	2,658	3,230	3,714
215A	Hosiery ... do	554	648	667	911	1,086	1,318
216A	Knit dresses ... dozens	32	28	46	121	260	428
217A	Knit pajamas ... do	9	29	22	34	107	203
218A	T-shirts ... do	95	142	88	70	221	187
219A	Knit shirts, including blouses ... do	219	1,080	2,263	3,044	3,513	2,339
220A	Knit skirts ... do	6	7	7	36	37	50
221A	Sweaters ... do	230	513	1,348	2,576	4,785	7,143
222A	Women's, girls', infants' knit trousers ... do	6	16	17	95	507	1,513
223A	Knit underwear ... do	68	140	201	157	358	540
224A	Knit wearing apparel, n.e.s ... pounds	962	1,559	1,805	2,033	3,594	8,451
225A	Body-supporting garments ... dozens	108	194	294	610	1,430	1,835
226A	Handkerchiefs ... do	685	938	726	624	729	1,350
227A	Mufflers, etc., not knit ... pounds	2,439	3,411	1,628	1,324	1,590	3,025
228A	Blouses, not knit ... dozens	327	556	760	526	828	1,643
229A	Coats, not knit ... do	72	154	101	159	530	1,319
230A	Dresses, not knit ... do	57	78	164	166	310	488
231A	Dressing gowns, not knit ... do	21	36	71	68	103	161
232A	Pajamas, not knit ... do	47	44	62	107	270	617
233A	Playsuits, etc., not knit ... do	43	63	79	58	117	200
234A	Dress shirts, not knit ... do	122	318	1,033	2,242	2,596	4,197
235A	Shirts, n.e.s., not knit ... do	74	162	527	1,287	2,226	2,753
236A	Skirts, not knit ... do	1	2	5	4	37	115
237A	Suits, not knit ... number	41	275	169	73	133	496
238A	Trousers, etc., not knit ... dozens	676	1,041	758	819	1,162	1,519
239A	Underwear, not knit ... do	5	13	9	6	36	109
240A	Wearing apparel, n.e.s., not knit ... pounds	634	808	890	990	1,835	3,559
241A	Floor coverings ... square feet	13,338	37,582	86,382	85,865	129,670	133,548
242A	Furnishings, n.e.s ... pounds	1,065	1,116	1,576	1,429	2,116	2,900
243A	Manufactures, n.e.s ... do	4,973	5,153	6,450	5,682	6,442	6,749

[1] Includes merchandise released from customs custody immediately upon arrival plus merchandise entered into bonded storage warehouses immediately upon arrival.
[2] Groupings used by BDSA of U.S. Department of Commerce (Publication TQ 2310).
[3] Not separately classified in 1964 and 1965.
[4] N.e.s.—not elsewhere specified.

Note: Total of all imports for each year are not meaningful as the units differ among the various groupings. On a common basis by conversion to equivalent square yards the totals for recent years were as follows:

Year	Equivalent square yards (thousands)	Growth over previous year (percent)
1967	933,458	17.0
1968	1,453,061	55.7
1969	1,782,698	22.7

Source: Compiled from official statistics of the U.S. Department of Commerce.

Senator MILLER. I am just thinking in terms of how much cloth is involved in the apparel because that would be an add-on to your 8.5 percent. If we are looking at the total impact, if you can provide the apparel figures for the record, I think it would be helpful.

Mr. GIBBONS. Yes, sir. Those figures are available and I am sure you will be surprised to find that the impact is not as great as you have been told it is.

Senator MILLER. Sir?

Mr. GIBBONS. And I think you will be surprised to find that the impact is not as great as you have been told it is. I give you gross figures here because I did not want to break it down into——

Senator MILLER. I haven't been told too much about the impact in pounds.

We were told just this morning that the impact on jobs is pretty serious and I see 93,000 jobs have gone out in the 9 months of this year. That is something that is more meaningful to me than pounds.

Mr. GIBBONS. Yes, sir; that is exactly what I was coming to next here.

If you take, and I think most of us will realize that when the unemployment rate goes in this country from around 3 percent to around 5½ percent, that you are going to have a loss of jobs in all industry, not just the textile industry, and I think that, I tried to get these figures this year from the different State employment services and I had them from some States.

For instance, when I contacted South Carolina I found out that they only issue figures once a year, so they could not tell me until the end of the year. When I contacted the State of Georgia I found out there had been a dropoff in the employment of textile workers in Georgia. But I found that the dropoff, and in speaking as of around 2 or 3 months ago, had been greater in other industries than it had been in the textile industry. So I think that you are going to find that the textile industry, of course, moves with every other industry in the United States and while I cannot challenge that 93,000 jobs, I can tell you that the gross number of jobs during the sixties, Senator Miller, in the textile and garment industry increased by—between 250,000 to 300,000 jobs. Now it goes up and down yearly as the textile and garment industry moves up and down, as the styles change, as the mills come and go, as competition comes from within this country and from abroad, but generally speaking, in the 10-year period from 1960 to 1969, the total number of jobs in the textile and garment industry increased on the order of 250,000 to 300,000 new additional jobs. Now that is not an industry that is in serious trouble when you consider that that industry was automating and was faced with what they claim to be unheralded outside competition.

Senator MILLER. May I just say I happen to be a little more interested in what is the situation in 1970 and possibly in 1969 than what it was back in 1960. After all, if you were one of the 93,000 people out of work in 1970, you could care less what the situation was back in 1960.

Mr. GIBBONS. I agree with you on that, but I was using that as an illustration to show that unemployment is up in this country for a number of reasons, and in all industries, not just the textile and garment industry.

Now, if you will look——

Senator MILLER. For example, if you look in the defense and space industries——

Mr. GIBBONS. It has been even more substantial than that.

Senator MILLER. There was a loss of employment but that is due to a cutback in Federal spending, and there are people coming out of the military service, about 500,000 fewer men in uniform today than a year ago so you are going to have to expect a certain amount of unemployment during that period of readjustment, but the people who testified in favor of the textile quotas tell us that there has been a flooding of and a tremendous increase, 46 percent, I think they said, in manmade fibers in just 9 months of this year, and it is pretty hard to avoid recognizing that the loss of jobs is pretty well connected with that.

Mr. GIBBONS. Senator Miller, let me caution you about some of those figures that they use 1970 compared to 1969. They always conveniently forget, and I find that both sides do this. In the 1969 figures, they are not very reliable because of the shipping strike we had in 1969. As you remember American ports were tied up for about 4 months and any figures that you have got comparing 1969 figures, the first so many months of 1969 and the first so many months of 1970 are going to be terribly askew.

Senator MILLER. But they did not do that. They said there was a loss of 60,000 jobs in 1969 and a loss of 90,000 jobs in 1970.

Mr. GIBBONS. Well, Senator, if you read their trade publication and not just what they tell you before this table here, they tell you they have all kind of problems in the textile and garment industry. One of the problems is what kind of coat lapel you and I are going to wear. Another one is the length of the ladies' skirts, and if you will go down and talk to them you will find out that ladies just are not buying dresses because they do not know what to buy. They have style problems, they have all kinds of problems primarily brought about by change in styling and the changing economic outlook.

There is no doubt that the severe slide of the stock market had something to do with it.

Senator Talmadge's State has been suffering for a number of reasons. Their production is off. They have been realining their assembly lines, and their production lines in their State, and they have had trouble but if you go talk to the textile and garment people, they will tell you that even more serious than foreign imports is the problem that they have with the style changes right now, the mini versus the maxi, the mini versus the maxi or midi. You know you have got, I cannot see that far, but I think you have got on an old style coat and I have on a new one—and you know we both have got on kind of old ties, and that is one of the big problems in the textile industry right now. It is not all foreign imports.

Let's look at these people from another point of view.

I think if you look at their dollar volume of profits, and this is something that you, sir, would be better able to understand than I, but in 1960 the textile mill products dollar volume of profit was $329 million.

In 1969 the dollar volume profit of these same textile mills was $621 million or about almost double, and in the apparel or the garment industry it went from $152 million in 1960 to $523 million in 1969. Now these are the kinds of things that these poor people are coming up and asking you to do, to give an industry whose dollar volume profit has almost quadruped in the garment area and doubled in the textile area in 10 years, the most horrendous type of trade protection that I can imagine has ever been foisted off on this Congress.

Now, the return on the investment of the owners of textile mills, was 5.9 in 1959. In 1969 it was 7.9 return. So their return on their investment went up 2 percent or really went up about 20 percent.

Senator MILLER. May I make an observation that it did not quite keep pace with the rate of return on interest.

Mr. GIBBONS. No, it did not.

Senator MILLER. So they really fell behind if you are going to look at the way interest rates jumped. Getting money back on interest even with Treasury bills is 10 percent, they are even under that.

Mr. GIBBONS. Of course, if you will examine in the textile industry, sir, you will find that there are about 25,000 production units in the textile industry. It is an industry in which there are a few large companies but there are a great many small companies and these returns on investment do not include payments to officers and directors and things like that.

This is just return on the equity that the stockholders have. I did not mention the real good years, Senator Miller. The real good years were 1965, they got 10.8 that year, in 1966, 10.1, and the year prior to that, 1964, was 8.5. Because I had used a 10-year figure, I was giving you the two 10-year figures there.

Senator MILLER. How about 1968?

Mr. GIBBONS. 1968 it was 8.8.

Senator MILLER. And 1969.

Mr. GIBBONS. It was 7.9.

Now, let's go to the apparel producers on the other side since we have talked about the textile people. The apparel people went from 7.7 return on their investment in 1960 to 11.9 in 1969. And I could give you the figures in between there—in 1966 they had a 13.3 return on their investment. Yes, they have had some bankruptcies, but what American industry that you know of that has 25,000 units in it doesn't have some bankruptcies as well as some that are going to do real well, and this is an industry that is changing very rapidly. We mentioned style, but there are also production techniques. The Water Jet Loom for instance is the latest thing in weaving cloth. These people are moving very fast in the technology. The whole system of the use of man-made fibers is developing very rapidly, and some companies that had been making products by old processes have gone out of business, and new companies and new processes have come in.

The garment and textile mill, as perhaps when you and I first saw them was a two or three or four story building in New England made out of red brick with lots of windows in it for light. The new textile mill in Georgia or South Carolina is a one-story no-windowed air-conditioned temperature-controlled marvel of automation. There has been a great migration of these textile mills from the Northeast to the Southeast and to other parts of the country as working patterns and working conditions and technology have changed. I submit to you any industry that has increased by roughly 250 to 300 thousand new jobs in 10 years, any industry whose dollar volume of profits has gone up almost four times as far as garments, twice as far as textiles in 10-year period, and whose return on investment is generally up, is not an industry that should come in here and ask to get the kind of protection they want you to give when there are other American industries that are going to be exposed because of this, and be retaliated against because of the special protection the textile industry is seeking.

Senator BENNETT. Mr. Chairman, it is one of my functions to be the roughneck in this committee.

Mr. GIBBONS. Good.

Senator BENNETT. And with all respect to my friend from the House, he has been going for 30 minutes and he is not very far into his analysis of the bill and we have two other witnesses who have been here since 10 o'clock this morning.

Mr. GIBBONS. I appreciate that, sir.

Senator BENNETT. So I hope that he can hurry through the rest of his comments.

Mr. GIBBONS. I will be glad to, sir.

I would say DISC—and I followed Senator Miller's questioning on Friday—is another particular preference. Even the authors of it say it won't work too well. I think it opens up more loopholes.

I would point out to you that the DISC classifies income that normally is classified as domestic income to foreign income. This foreign income, of course, can be used to offset foreign tax credit. I think you can understand who would get the biggest advantage out of being able to offset foreign income versus foreign tax credits.

I think the Treasury is going to lose at least a billion dollars when we start paying off all those unused foreign tax credits.

I have one thing here, sir, that I would like to bring up that is a little sensitive. Three weeks ago on the House floor I opposed a rule that had been reported by the House Rules Committee that would require a two-thirds vote rather than a simple majority on any House bill that came back from the Senate with a nongermane amendment. I opposed that, so I think I can come over here with clean hands and talk to you about it as I intend to do now. As you know, this problem of making a Congress work, of the House and the Senate, working together is something that requires a great deal of comity, and a great deal of understanding. That was essentially the arguments I used when I opposed the change in the House rules 3 weeks ago. You are going to find if you examine the debate that most of the power structure in the House, most of the leadership in the House opposed my position, but, somehow or other, luck held out and we were able to resolve that difference so that the nongermane Senate amendments, when they come back to the House, don't require a two-thirds rule.

I hope that when you take up this bill as a nongermane amendment to the social security bill that you will help prove me right by rejecting this. I hope that we won't get into that kind of a fight. I would hate to see the House of Representatives fall back on its rules, and start treating your amendments as if they were junior to our amendments. I don't want it done that way. I would oppose it even if it came over but there is a very sensitive question in the House, one that as a progressive legislator, I tried to work so that Senators could make accommodations with the House rule. But there is no doubt that when you tack a bill like this onto a nongermane House bill it is going to cause all kinds of fuss over there, and I would hope that you would consider this problem as a long range problem and would try to work out that difference. I appreciate your courtesies, gentlemen.

Senator TALMADGE (presiding). Thank you, Congressman.

Any questions?

Senator FULBRIGHT. Well, yes, I think, Mr. Congressman, you have made a very fine contribution. You went through these hearings as a member of the Ways and Means Committee. You obviously have acquired a great deal of knowledge about it. You said several things that I think there was some misunderstanding about. The last thing you said was about the DISC tax preference. I asked, I believe it was, the Secretary of Commerce about this foreign income being offset against tax credits and I think he said he didn't think that could be done under the bill, that there would be no loss to the Treasury of that kind, that all the loss would be simply deferral. The taxes that they wouldn't pay would be estimated something like $600 million and the effect of this is only to defer income that they now pay upon it. I asked him if it could be offset. He said no. I think I used the illustration whether an oil company that owned a coal company that sells abroad its coal and transfers this into a DISC corporation. Are you pretty sure of the facts about that?

Mr. GIBBONS. Yes, sir, I am and I think if you inquire of the staff of the Joint Internal Revenue Committee they would corroborate my statement.

Senator FULBRIGHT. That is what I thought.

Mr. GIBBONS. I have checked that statement out with them, and I am sure they would corroborate it. They will tell you there is not only a tax deferral but you can get nonpayment of taxes out of this, too. This is more than a deferral, Senator.

Senator FULBRIGHT. I asked the Secretary. Not being a tax man it may be excusable for him not to have known. But he said it was his understanding it would not have that effect that you said it would have.

I want to say that of your description of the industry as a whole and the fact that in a big industry with 25,000 units there would be those who go broke as well as those who forge ahead, this is old-fashioned private enterprise sentiments. This is becoming more or less unpopular these days. We are doing more and more to administer prices and competition is no longer fashionable.

Mr. GIBBONS. You know, sir, that brings up a question and I am sorry Senator Bennett is not here.

Senator FULBRIGHT. I am getting old-fashioned going back to those ideas that there ought to be competition in our industry.

Mr. GIBBONS. That brings up a question we never have discussed here and that is, who gets those quotas? These quotas are going to be very valuable things. We know what they are in the oil industry. You know a ticket for a barrel of oil is worth about $1.25 most days in the oil industry, but what is going to be the worth of a ticket to buy these shirts or socks or this man-made fiber and who gets it. That question has never been answered. What system of allocation is going to be made of those quotas—

Senator FULBRIGHT. What do you think, you heard the testimony?

Mr. GIBBONS. Who is going to get it? Are Sears & Roebuck going to get it all or Montgomery Ward going to get it all or Mr. XYZ, who is an importer, get all these shirts, or how will it be decided. No consideration has ever been given to that.

Senator FULBRIGHT. You remember the sugar quotas.

Mr. GIBBONS. Yes, sir, I do.

Senator FULBRIGHT. I thought the chairman of the House committee allocated the quotas according to how he felt that day. Is the chairman of the Ways and Means Committee——

Mr. GIBBONS. I won't comment on that. I haven't been around here that long.

Senator FULBRIGHT. I don't know either, this is what the press said, I didn't. I never did get a quota. [Laughter.]

Mr. GIBBONS. These quotas are going to be very valuable things, sir.

Senator FULBRIGHT. What did the House committee find about it? What do you think about it?

Mr. GIBBONS. Well it didn't. It just glossed over that, sir.

Senator FULBRIGHT. Nothing has been said about it. In fact I didn't even think about it until this minute.

Mr. GIBBONS. Who is going to get the license to import the shirts or socks or the underwear?

Senator FULBRIGHT. Isn't there anything in the bill to determine that?

Mr. GIBBONS. No, sir.

Senator FULBRIGHT. Who is going to determine that?

Mr. GIBBONS. I don't know.

Senator FULBRIGHT. Do you?

Mr. GIBBONS. Well the fellow who has got the most money is probably going to end up with it and that is one of the serious parts of this bill as I see it. The fellow who can go overseas and deal with the foreign cartel and make his purchase is going to do it. In other words, the big banker or the fellow who has got the backing of the big banker behind him is going to end up with these quotas.

Senator FULBRIGHT. Nobody raised this question. I don't know.

Mr. GIBBONS. Or the big merchandiser.

Senator MILLER. Will the Senator yield? I think the Senator could probably get his answer on the question on the apparel on the meat import quotas that have been on the books for several years. I don't know for sure how the Department of Agriculture gets into the picture, but I think you have your brokers and they gather customers and they probably just work it out. We haven't had any problem that I know of on allocation of meat import quotas. It might be a different problem with textiles but I think that they managed to get along and we never have had a request for the committee to change the meat import quota bill.

Senator FULBRIGHT. I am not familiar with the meat import. Is it a very substantial amount? And what is it? What does it consist of?

Senator MILLER. I think it is a large sum of money that is involved.

Senator FULBRIGHT. What does it consist of, what types of meat, just beef. Not poultry, I hope.

Senator MILLER. No. But we are importing a large volume of lamb from New Zealand.

Senator FULBRIGHT. Yes.

Senator MILLER. And considerable beef from Australia and some other countries.

Senator FULBRIGHT. Do you have to get a quota in order to import lamb from Australia?

Senator MILLER. I don't know the answer.

Senator TALMADGE. The quota relates to the particular country and not the particular individual importer.

Senator MILLER. Yes, but I think what the Senator from Arkansas is getting at is once that quota comes into the United States and the Secretary of Agriculture at the beginning of each year sets a target on the amount of quotas and they get up near that point they are fearful because they don't want to trigger off this matter, and I think they have been able to manage this through their regular trade. I guess maybe the answer is they haven't imposed the quotas. We have got an import quota bill and we are constantly talking about triggering off the quotas but nevertheless you had an informal quota situation. The Secretary of Agriculture sets the target, and the importers try to keep within the target, and their trade seems to get along all right.

Senator FULBRIGHT. Well, they have—I am familiar with the way the sugar works but they give those to those specific countries and they come and lobby for a particular country. Now within the country who gets the sugar, he allocates that to a specific industry—to specific refiner, for example.

Senator MILLER. I don't think so, Senator. I think this is handled by your brokers on a customer basis and they seem to work it out.

Senator FULBRIGHT. I don't understand the Congressman's view, I am getting more and more confused.

Mr. GIBBONS. May I give you an illustration?

Senator FULBRIGHT. Yes.

Mr. GIBBONS. Last year we imported from the European Community $555 million worth of textiles and shoes. Now, let's take Japan. We imported from Japan last year $576 million worth of textiles and shoes. Now, here is one country selling us that much. Who is going to decide in this country who gets the quotas.

Senator FULBRIGHT. That is what I want to know.

Mr. GIBBONS. In other words, is Sears, Roebuck going to go to Japan?

Senator TALMADGE. Will you yield at that point?

Mr. GIBBONS. Yes.

Senator TALMADGE. All this Government will attempt to do is say to the Japanese that the quota must be based upon a certain percentage of the imports in the base years and then the Japanese exporter and importer will work out their pro rata share. That is the system that is used now. No government tries to tell each individual how much you can export or how much you can import. That will be worked out between the buyer and the seller. All this Government will attempt to do is enforce the quota.

Mr. GIBBONS. I agree with you, sir, it will be worked out between the buyer and seller. I just wonder which buyer on this side is going to get it because one buyer——

Senator TALMADGE. I will assume they will do like any other seller does when he is short of goods. He allocates goods to his customer on the basis of previous sales and if he is short he gives him a pro rata share.

Mr. GIBBONS. Well, I would say that one of the deficiencies, Senator Fulbright, in this legislation is there is no equitable distribution of these quotas, who gets them, or what control of them at all.

Senator TALMADGE. Any other questions?

Senator FULBRIGHT. Thank you very much.

Mr. GIBBONS. Thank you.

Senator TALMADGE. Thank you very much. Did you want to ask a question?

Senator HANSEN. I have two.

Senator TALMADGE. Senator Hansen hasn't had an opportunity to question you. I hate to detain you so long and keep these other witnesses waiting.

Senator HANSEN. Mr. Gibbons, have you read the report of the House Interior Committee, Interior and Insular Affairs Subcommittee on Mines and Mining?

Mr. GIBBONS. No, sir, I have not read it.

Senator HANSEN. On page 196 of that report, the committee makes this point:

> The estimated cost of the present control program speaking of the mandatory oil import program as compared to no controls has been greatly overstated. Rather than the $5 billion annual costs suggested by the task force, a more realistic figure probably is less than $1 billion. When full consideration is given to intangibles and to the very real probability of higher foreign fuel prices once this nation's dependency on foreign sources is well established, there actually may be a net benefit to the economy from the present import program.

I thought you would be interested in that background because on the 8th of October General George A. Lincoln testifying before a House committee, and he is the Director as you know of the Office of Emergency Preparedness, made this statement: "The oil import program exists for the purpose of furthering our national security. Because of this its operation in normal times does under the imports of crude oil and its products into the United States." In fact, however, as I understand their points, "the operation of the oil import program is not under current circumstances acting to limit the actual imports of overseas crude oil into the U.S." Were you aware of that?

Mr. GIBBONS. Yes, sir, I know that currently because of the Eastern crisis.

Senator HANSEN. Now you testified that maybe it is costing between $5 and $7 billion.

Mr. GIBBONS. I think I testified if I didn't I intended to say some people say it cost five, some people say it cost seven, some people say it cost one but whatever it is, it is an expensive item.

Senator HANSEN. It is an expensive item.

Mr. GIBBONS. Yes, sir; it is an expensive item and I think that we should allow the President the flexibility that he has had in the past to decide whether he wants quotas or a mix of quotas and tariffs or just how he would solve the problem.

Senator HANSEN. Of our domestic production, what percent of that should be imported, would you think? I mean if you were to have flexibility and latitude that you suggested that the President have?

Mr. GIBBONS. Well, sir; I am not an expert.

Senator HANSEN. Fifteen, twenty percent?

Mr. GIBBONS. Of what would be currently a fair amount. The fair amount is badly distorted right now because of a number of things. One is the crisis in the Near East. The other one is the pollution crisis that has turned so many of our factories and hospitals and generating plants from sulfur types of coal to low-sulfur types of petroleum and we have got an artificial problem that may be with us for a year or so. I hope it will be solved before that time. But we have got a conversion problem as well as the war problem. So I don't think we should say to him, "The only way, Mr. President, you can solve this problem is by imposition of quotas" and that is what the House bill does, just quotas.

Senator HANSEN. As a matter of fact, we have had quotas, of course I am sure you know, since 1959.

Mr. GIBBONS. Yes, sir.

Senator HANSEN. But they have not applied to residual fuel oil.

Mr. GIBBONS. Yes, sir; I am aware.

Senator HANSEN. Are you aware at the present time gulf coast oil costs about $3.90 and oil from the Middle East is $4.10?

Mr. GIBBONS. Yes, sir; that is caused by spot tankers, caused by the tanker shortage, those are spot and not contract.

Senator HANSEN. It happens to be a fact, though, this is what people have to pay for it.

Mr. GIBBONS. No, sir; you are wrong there, spot prices are what the fellow has got to pay that is buying the top barrel. But you know the big oil companies in this country, sir, have had contracts on the shipping of their oil that is run on, first of all, they usually ship it in their own ships or under some foreign flag but they have got contract on oil hauling that go for the life of the ship and probably a few years past that. So the spot prices you are quoting is the extreme high top price for the top gallon.

Senator HANSEN. They are probably going to go higher because of the tanker shortage and if you have any figures to the contrary I would be happy to have you submit it for the record later on.

Mr. GIBBONS. I am just trying to explain to you the difference when the spot price which is the top price which is emergency gallon versus the normal gallon that the oil companies have to import. They are not importing all of their oil at that price. If they were they would practically quit importing.

Senator HANSEN. Do you know what percentage of our total domestic production is imported now?

Mr. GIBBONS. Currently, no, sir; I couldn't tell you exactly what it is. As I say, it is right now we are importing a lot more than we have in the past. I know that the Texas Conservation Commission the other day had allowed one of the highest withdrawal rates that they had allowed in years. I don't know what——

Senator HANSEN. Are you referring to that as imported oil?

Mr. GIBBONS. No, sir; I am saying that——

Senator HANSEN. I thought you just said we were importing oil here.

Mr. GIBBONS. We are withdrawing from Texas fields, the Texas Conservation Commission has allowed the Texas producers to produce at a higher rate now than they have in recent history. In fact, as far back as I can remember. I don't know what it is in Louisiana, I haven't read that, but I am sure Senator Long can supply that.

Senator HANSEN. I take it you are generally opposed to quotas; is this right?

Mr. GIBBONS. Yes, sir; I think they are a very poor way of solving our economic problems.

Senator HANSEN. Do you support the effort of the Florida delegation or at least some of them to put a quota on Mexican tomatoes?

Mr. GIBBONS. Yes, sir; I introduced one of those bills by request. I think it is a poor piece of legislation and I have said so.

Senator HANSEN. But you support it.

Mr. GIBBONS. No, sir; I do not.

Senator HANSEN. I have no further questions.

Mr. GIBBONS. I introduced that bill by request and I don't think it is a good way to solve our problem.

Senator HANSEN. You did introduce it by request and don't support it?

Mr. GIBBONS. Yes, sir; I said that when I introduced it.

Senator HANSEN. Very interesting.

Mr. GIBBONS. I felt I owed my constituents that representation, sir. I introduced it with one other Member. I felt it deserved every consideration by the Ways and Means Committee and the administration. The administration returned an adverse report on it.

Senator FULBRIGHT. Mr. Chairman, may I ask unanimous consent that there be introduced into the record the complete list of those of the free trade community who requested an opportunity to appear before the committee on this bill, but were denied an opportunity because of the brevity of the hearings.

The CHAIRMAN (presiding). Who are the members of the free trade community? We have heard from the importers association, the National Committee for Free Trade Policy, the American Retail Federation, the Emergency Committee for Foreign Trade, the agricultural spokesmen. I am not sure there is much left of the "free trade community." We shall now hear from the League of Women Voters.

Senator FULBRIGHT. Members of the free trade community who have already requested to be heard but will not be able to be here.

The CHAIRMAN. Yes, sir; fine. That will be done.[1]

All right, now the next witness, then, is Mrs. Bruce Benson, president of the League of Women Voters. Mrs. Benson, we are pleased to have you and I have the highest regard for your organization. I think that they are probably right about as often as any organization in the country, and I believe most of us are always very pleased to hear your suggestion.

STATEMENT OF MRS. BRUCE BENSON. PRESIDENT, LEAGUE OF WOMEN VOTERS

Mrs. BENSON. Thank you very much, Senator Long and members of the committee. I appreciate the opportunity of testifying on behalf of our members. We have active members in every State of the Union plus Puerto Rico, the Virgin Islands, and the District of Columbia. I hope you maintain your high opinion of the organization and still continue to think that we are about as right most of the time as anybody after I have finished with my testimony.

The CHAIRMAN. I said that, notwithstanding what I anticipate your testimony to be.

Mrs. BENSON. Yes. I assumed that is what you said. [Laughter.]

The League of Women Voters of the United States has long supported the reciprocal trade policy which has been one of the positive and constructive foundations of U.S. foreign policy for many years. Several generations of league members have studied and restudied the problem of trade and its relationships both to a sound economy at home and to our foreign policy. The trade positions the league holds are based on the firm conviction that the expansion of international trade is one of the principle roots of economic well being both

[1] Statements submitted for the record appear as part 2 of the hearings.

at home and abroad and our trade policy should be geared to serve the general public interest rather than special interests.

International trade is also an important factor in creating conditions in which positive diplomatic relationships between the United States and other nations can develop and be maintained. We believe this is essential.

The LWV maintains that the provisions of the trade bill now being considered by this committee are irreconcilable not only with long range goals of U.S. policy but also with current policy. The foreign policy of the United States is dedicated to assuming a leadership role in the search for ways to relax tensions among nations, and to availing ourselves of every opportunity to confirm our stated policy of strengthening possibilities for peace. This trade bill, however, we believe would lead to the exact opposite results. It is our judgment that the passage of the bill in its present form would undermine the leading economic and political position of this Nation and invite the distrust and retaliation of our trading partners, present and future.

The League of Women Voters seriously questions the basic validity of the underlying assumptions of the bill. We don't think the case has been proven. We are concerned that the whole course of our trade policy may be altered by a chain reaction of misinformation and misinterpretation. I am sorry Senator Bennett is not here because this is part of the point he was making in comparing what with what.

Recently, nearly 4,800 professional American economists signed an appeal to Congress and to the President urging a rejection of import controls and a veto of any bill encouraging or providing for such controls. In the words of the economists themselves: "We now seem on the threshold of another massive mistake * * * Today, as in 1930, a protectionist policy, explicitly curbing imports but implicitly cutting exports as well, would directly impair our own prosperity * * * A clear assessment of our national needs and goals in this important policy area is necessary."

We feel that the House committee bill represents a major reversal in U.S. trade policy. Legislation of such significance should not be acted upon lightly. The facts presented by various industries and by labor to the House committee and to this committee of the Senate need to be evaluated in relation to overall production statistics, import and export figures, employment and unemployment patterns.

With regard to the specific provisions of the bill: The league regards current moves to impose quota restrictions as serious economic and diplomatic threats to this country. We oppose across-the-board quotas as well as quotas on specific commodities. Quotas, we feel, subvert the potential effectiveness of the mechanisms designed to deal equitably with import-induced injuries. They invite rigid, and sometimes extreme, categories of restriction in response to the most vocal and aggressive special interests, while ignoring the interests and rights of the consumers.

We have only to recall the disastrous effect of the Smoot-Hawley tariff bill on our economy in the early 1930's with its impact on the depression and subsequent unemployment. The arguments leveled against Smoot-Hawley remain valid today, and our country's greatly expanded participation in the world economy make the warnings issued in the thirties all the more important to listen to today.

We do not think we should return to an era of protectionism with spiralling retaliatory measures among nations. This country has had plenty of experience with the political and economic walls between and amongst nations that protectionism brought in the past century. The dangerous results of our trade policy in the thirties can only be repeated if we insist on ignoring the past and repeating those same mistakes again.

In 1970, import quotas we think would mean:

A slowing down of economic opportunity. Contracting markets lead to fewer rather than more jobs for U.S. citizens and for those of other nations, and decreased profits for industry. Quotas would reduce incentives to create new products and stimulate new tastes, for these depend upon an expanding market.

Deteriorating relationships with our trading partners, who will impose restrictions in return. They have said they will, they did in the past and we did in the past and there is no reason to think that this will not happen if we follow the course outlined in this bill. The EEC has said very recently that "any unilateral decision would constitute a breach of the GATT. The EEC would ask for authorization to take steps for retaliation." This has been talked about a good deal today so I won't repeat it.

A blow to economic progress made by many of the less developed countries we have been striving to assist by means of our foreign assistance programs, is another element of this import restriction problem. Less developed countries must be able to trade if they are to help themselves reach self-sustained economic growth. We should encourage trade to enable them to be less dependent upon our foreign aid, particularly since we are so busy withdrawing our foreign aid.

In addition, so far as the less developed counrties are concerned, the political implications of making it terribly difficult for them to trade with us must be kept in mind in relation to the international political struggle between the free world and the Communist nations.

Imposition of quotas would also result in higher prices for the American consumer an dmore limited selection of products. The effect would be felt especially by the lower-income Americans who purchase inexpensive imported apparel, such as shirts and underwear and footwear, and other imported products which generally do not compete directly with American products. I know the committee is aware of the league's long interest in the rights of the consumer and our concern with the effect that this trade bill would have on consumer welfare. In a recent letter to consumer organizations around the country signed by myself, Betty Furness, Bess Myerson Grant and Willard Wirtz, we alerted these various groups to mobilize against this dangerous anticonsumer bill. A copy is submitted for the record.

A further effect of quotas would be to wipe out our trade surplus. Protectionists persist in ignoring the basic economic axiom that has been proven so many times I don't know why we keep talking about it; if we won't buy from others, they will not buy from us.

It is argued that quotas are being sought to prevent injury to American industry; but in our judgment, what is really involved is fear of competition, a retreat from competitiveness and a sheltering of special interests. The facts show that those industries calling loudest for quotas have the weakest cases for quotas. Particular interests have managed to make a "special" case for certain industries, thus getting for themselves mandatory quotas in the House committee bill. The textile and apparel industries have not even gone the route of determination of injury—and statistics from the Department of Commerce and the Department of Labor show that the industry has indeed fared very well in these past few years, as Mr. Gibbons quoted a few minutes ago. Unemployment in these industries in the current recession period is lower than the all-manufacturing average. Imports of textile products account for a bare 4.2 percent of the $45.6 billion U.S. market for textile products.

Furthermore, imports of synthetic textiles and textile products, and this where the problem lies, amounts to only about 3 percent of the U.S. domestic consumption in dollar value.

A study of the shoe industry by a Presidential task force on non-rubber footwear concluded that imports could not be named as the cause of disruption in the industry. Employment in June 1970 in the footwear industry was down only .1 precent from the 1969 average and many firms in New England were reported having difficulty finding workers. More often than not, the Presidential task force concluded, the cause for plant closures has been outdated equipment, bad management, and inability to keep up with changing styles.

If indeed, these industries had been injured by import competition, and we do not deny, of course, the possibility of this happening, they should seek relief under a liberalized and positively administered adjustment assistance provision. The arbitrary imposition of quotas without a strictly enforced finding of injury only serves to protect industries from legitimate competition, and encourages the continuation of antiquated methods and poor management, while at the same time locking workers into low-wage jobs and increasing prices for the consumer. Those industries and workers which can truly demonstrate injury from increased imports should be provided adequate adjustment assistance aimed at improved effectiveness and/or redirection of both the capital investment and labor force affected by import competition.

We believe the imposition of quotas will hurt all Americans by increasing prices on those necessities vital to every family. The limiting of low cost imports of apparel and shoes and the increased prices of those items available will place a heavy burden on many families and individuals already bent under the strain of the current inflation. The provision in the House committee bill locking in quotas on oil will add, we believe, another unnecessary cost to many Americans. Those Northeastern and North-central States already burdened with artificially high fuel costs due to the current oil quota will bear the largest share of the cost of this provision, while the profit goes to a very healthy oil industry. The need to change the current quota system to a tariff system has been pointed out by the impending fuel crises which may reach dangerous levels this winter. The Presidential task force on oil imports has noted that the continuation of the quota system on oil imports will cost the American consumer $5 billion in 1970 and an estimated $8.4 billion per year by 1980. What we are opposed to—and there is hardly any point in arguing about these statistics—there is much disagreement about them—what we are opposed to is legislating quotas into the bill.

There are many other features contained in the House bill that we consider will seriously hinder U.S. trade policies. We feel that the loosening of the criteria for determination of injury under the "escape clause" provision and the added criteria serve only to open the door to industry relief when none is warranted. The "trigger" mechanism included in the bill is complicated and has only vague criteria for the determination of industry. It is bound to lead to inequitable use. It will encourage those industries unwilling to face competition and gives those industries with the most political clout another opening for special protection at the expense of the general public.

The league disapproves of the relaxed criteria for "escape clause" relief. We dislike resort to the escape clause because it can have both international repercussions and negative effects on other domestic industries. What is not often realized—because it is not often mentioned—is that the retaliation that is provoked by barriers designed to favor one particular industry is often felt by some other innocent industry. It may even be one that is less able to afford added trade impediments than the industry that claimed escape clause relief. The end result of the use of escape clause relief is reduced trade, almost certain loss of some exports and export-related jobs, and the unfair passing on of dislocations related to increased imports.

We believe the escape clause should be used only as the last resort and then at best it should be regarded as a temporary relief measure in extreme cases and under unusual circumstances. The escape clause will not promote competitive industry nor will it lead to orderly adaptation of changing trade patterns.

The league believes that an effective adjustment assistance program encourages adaptability and helps create an atmosphere for innovation and enlightened competition in the international market. An effective adjustment assistance program will help, without the imposition of restrictive measures. Where there may be a temptation to restrict imports in the mistaken belief that job opportunities for U.S. workers will thereby be enhanced, adjustment assistance makes it possible to choose the alternative approach of opening new opportunities and avoiding the inevitable retaliation that is brought against the nation which closes its markets to others.

We believe that the American selling price must be repealed and the President should be given the authority to repeal without any restrictions. Our trading partners will not extend the agreements of the Kennedy round indefinitely and time is growing short. We were pleased to read that the House committee bill would authorize the President to negotiate any bilateral or multilateral agreements to eliminate the ASP, but we do oppose the restrictive provisions in this authorization.

The League favors certain provisions of the House committee bill, such as restoration of authority to the President to make limited tariff reductions and authorization of an annual U.S. appropriation to the GATT. We approve of that very strongly. But we believe that the undesiarble parts of the bill outweight by far the good points. The overall effect of this bill will be to create higher trade walls, and to make our trading with other nations infinitely more difficult than it already is.

These are crucial years in trade. We can act constructively or we can turn back to the regressive policies which increased the impact of the depression. We want this country to move ahead. We believe our competitive ability is strong. The United States should indeed be a leader among nations by pursuing trade policies and practices that inspire others to follow the same path. Our task is to induce others to remove their import restrictions, to open their markets to our exports and to others. That is where our obligation and challenge lie—not in raising restrictions of our own.

In these times of world tensions, suspicions and international power struggles within and without the free world, it seems to us inconceivable that this nation would turn its back on one of the few policies that has consistently helped to reduce tensions and increase harmony among nations. We recognize that very real problems exist in the world trade community and in the world financial community and we know our trading partners do not follow the reciprocal path, far from it. But we do not believe our problems will be solved by closing the door, and giving others the sanction to do the same. These decisions will only increase difficulties in solving trade problems, increase world tensions, and cause a justified bitterness by the less developed countries against a wealthy nation who closes its doors to the exports on which they depend so heavily.

We oppose the House committee trade bill. In former years we have found members of this committee willing to listen carefully to the reasons advanced by the league for seeking a positive and constructive trade program. We again ask you to give full consideration to the long range consequences of this protectionist, restrictive, regressive measure. Every possible effort must be made to assure passage of a bill that will enable the United States to continue its leadership in enlightened international trade policy.

I would like to say that we believe this legislation should be considered on its merits alone and as separate legislation. It is legislation of far reaching consequences in all senses of the word. We urge this committee to reject moves to add trade legislation to the Social Security bill or to any other nongermane legislation.

Thank you.

The CHAIRMAN. Thank you very much.

Senator MILLER. Mrs. Benson, it is always good to see you.

You mentioned 4,800 professional economists in your testimony. Do you have any information on how many of these are directly or indirectly related to the import business?

Mrs. BENSON. No. I think we could find out but I don't have it and I don't believe that we know it but we could find this out.

Senator MILLER. Now, on page 3 you say we do not want to return to an era of protectionism. However, we have testimony indicating that whether we want it or not, that era is here, and that the common market is the most protectionist market in the world. We have had abundant evidence of restriction on the part of Japan, so I think whether we like it or not there is an era of protection.

Mrs. BENSON. It is certainly more of an era of protectionism than was true some years ago. We believe we must work in the opposite direction even though there is protectionism, even though our trading partners are employing protectionist techniques of one kind or another, nontariff barriers or quotas or straight out tariff barriers.

It isn't that we have departed wholly in our policies, although I think I can see why that sentence may sound that way. We realize that this is a protectionist era, in fact, we are in an era moving more and more toward protectionism and we believe this should be reversed.

Senator MILLER. Don't you think we have done a pretty good job in the last few years in trying to reverse that trend?

Mrs. BENSON. Well, yes, I think——

Senator MILLER. I mean the Congress in the trade bill of 1962 set up the negotiations for the Kennedy round.

Mrs. BENSON. It was a good bill.

Senator MILLER. And Congress in good faith tried to do something about it, but we were met with evidence that some of our trading partners are not of like mind, so what do you do. Now, I think Secretary Stans went far beyond the call of duty in trying to reach some kind of bilateral agreement with Japan on these textiles. He was able to do it in connection with steel. This is the way we ought to do it, I think. I think that the House bill, certainly in one of its main thrusts is to negotiate bilateral agreements. What do you do if you run into a stone wall as Secretary Stans did after months and months about it. It seems to me that it is not going to do us any good to say we don't want to have an era of protectionism when we have an era of protectionism facing us right now, and he has been trying for months to do something.

Mrs. BENSON. Well, I realize it is a very difficult problem and we do not by any manner of means underestimate the nature of this problem. Certainly we have tried extremely hard to negotiate voluntary agreements. We just feel we have got to continue to try those methods. Once you start putting quotas in legislation, you are going down the road which leads to nothing but trouble.

It seems to be a matter of general agreement that Japan has not kept up. I mean it is producing a great deal more than it ever produced before, and it is in pretty good shape and its trade policies have not kept up. I think we have got to continue to put international pressure of all kinds on Japan, but I don't think in looking at all kinds of statistics and trying the best you can to evaluate them that the textile industry needs this protection. Even if it did, we would still recommend following different courses of action than the legislated quota.

Senator MILLER. You see how we evaluate the House bill is this: we say we are going to have quotas if we don't have bilateral agreements. Now here is what the ball game is: Let's get going on the bilateral agreement, that is what we want you to do, we are sorry you didn't do it before. We still think you can do it, now go ahead and try to have some bilateral agreement but if you don't then we have no choice except to have some quotas. It seems to me that it evidences a desire on the part of the House to try to follow the bilateral approach but if you are running into a stone wall you just don't sit, you do something, and those quotas can come off any time they reach a bilateral agreement as I understand it. So if not, the quotas are on tomorrow.

Mrs. BENSON. But the likelihood there would be a voluntary bilateral agreement reached after a quota had been placed seems very unlikely to us and to people who have dealt with this trade problem. I don't think the stone wall is quite unmovable.

Senator MILLER. You ought to talk to Secretary Stans who stood on the firing line.

Mrs. BENSON. I know he stood on the firing line but there have been all kinds of rumors moving about what has been going on behind the scenes and I still think, and the League still thinks, that taking the quota route is bad policy even if there are problems, not that the problems don't have to be dealt with. There are all kinds of different ways other than legislated quotas.

Senator MILLER. Well, these legislative quotas in a way would be only as a last resort. One reason why some of us are sympathetic, and I haven't made a final determination on this bill at all and I must say I agree with your comment about 2 days of hearings, I am sympathetic to somebody like a Secretary who has gone over there several times and has had many people working on this and run into a stone wall. It seems to me one reasonable solution is to say we are going to have quotas. We don't want quotas but those quotas will only be effective if we don't have a bilateral agreement, and if we get a bilateral agreement, off go the quotas, and it would bolster up his position a little bit so that the people on the other side know he is speaking from strength, and not from weakness, and maybe some of these rumors you are hearing about are based upon the fact that this bill is very close to being passed by one House of the Congress so the trading partners, or some of them, may have the idea just possibly they ought to get into bilateral negotiations, so I would be hopeful if there were this quota arrangement, that they would get down to some real interesting bargaining on bilateral arrangements. Because they have nothing to lose by just sitting there. I mean they would have nothing to gain by just sitting, but would have everything to lose by persisting.

Do you maintain that the action under this bill authorized by the Congress would be a violation of GATT?

Mrs. BENSON. I think it would lead to violations of our agreements with GATT.

Senator MILLER. Do you think a quota on textiles as envisioned by this bill would violate GATT?

Mrs. BENSON. Yes.

Senator MILLER. Well, if it would not and it would come within the permissive areas of GATT, would you still oppose it?

Mrs. BENSON. I think we would still oppose legislative quotas because we think legislative quotas are a bad method for achieving what is a reciprocal agreement between one country and another country or between groups of countries; a bad method proven not very workable, or hardly workable at all in the past. Some people have greatly questioned the effectiveness of the quotas we now have, so we would oppose it whether or not it happened to lead to violations or in fact constituted violations of the GATT. That is only one aspect. It isn't the only aspect.

Senator MILLER. I think you made quite a point there. You quoted one of the common market commissioners that any unilateral decision would constitute a breach of the GATT. Would you tell us some of your position on that?

Mrs. BENSON. Well I think maybe we are in a semantic situation here. The unilateral agreement which would be made policy by the bill would, we believe constitute a breach of the GATT.

Senator MILLER. Yes. Now one last point. You say that you think what really is involved is fear of competition on the part of some phases of American industry, and yet the other morning we had testimony from representatives of the AFL-CIO, and their testimony indicated that they were not fearful of fair competition. They were fearful of unfair competition existing under unfair labor standards in some of these trading partners of ours. They preferred to have international fair labor standards, but failing that, and seeing that is a long ways down the road, they support some of the provisions of this bill.

Mrs. BENSON. Yes, I know that.

Senator MILLER. So I think fairness should bring out the fact that representatives of most of organized labor feel that they are not fearful of fair competition. They are fearful of unfair competition.

Mrs. BENSON. It is a legitimate worry certainly and nobody underestimates that, but for the same reason that has to do with industry, legislating quotas in the long run, we believe, is a negative operation, not a positive and constructive operation. I do not believe that passing legislated quotas is really in the long run going to save jobs for American workers nor is it going to force other countries to abide by their international labor standards, and it is likely to have so many bad repercussions on export and export related industries that we are going to find ourselves in a vicious circle of one problem leading into another. The problem of competition is only one part of it. And when you start trying to deal with the problem of competition in this way, it reverberates or reacts against other factors in the economy such as the export and export related industries and all of the hundreds of thousands of jobs that are involved in those industries.

Senator MILLER. Well, Mrs. Benson, I wish you could represent us by going over to the common market, and Japan, and testifying in that manner.

Mrs. BENSON. You just ask me, I would be delighted to go.

Senator MILLER. I am glad to have you here.

The CHAIRMAN. Thank you very much, Mrs. Benson.

(Attachments referred to by Mrs. Benson follow:)

MEMORANDUM ON CONSUMER INTEREST AND TRADE LEGISLATION

We are writing as concerned citizens, who like yourself, have been involved personally and professionally in the consumer movement.

We believe that despite the dramatic progress that consumer groups have made in having their interests recognized by business and government, there remain highly relevant areas of public policy important to consumers but ignored or unaffected by their action.

Our immediate concern is with foreign trade policy. Congress is now considering a trade bill which Virginia Knauer, the President's Special Assistant for Consumer Affairs, describes as "the most significant 'anti-consumer' legislation now in the Congress."

The bill (H.R. 18970) places mandatory quotas on textiles, apparel, footwear and oil, and gives a broad authority for quotas on countless other items. This legislation would have a disastrous *direct* effect on the American consumer—both by raising prices and by limiting imports of low cost products. It is of vital importance that this bill be defeated.

Mrs. Knauer has recognized the lasting damage to consumers that would follow imposition of a quota regime on American trade. She has said so in plain and unqualified words. We are sending her statement and this letter to leaders of consumer groups like yours across the country. We do so in the hope that you and those associated with you will act in the spirit of her words and let Congress know that the consumer movement of America has reached a stage where it will defend the interests of consumers wherever they are under attack.

Wire your Congressman and Senators today to protect the American consumer by opposing this costly legislation. For additional information, contact your local League of Women Voters or call the League's national office in Washington, D.C.—Miss Shirley Coffield, 202-296-1770.

Sincerely,

LUCY WILSON BENSON,
President, The League of Women Voters of the United States.

BETTY FURNESS,
Chairman and Executive Director, New York State Consumer Protection Board, and former Special Assistant to the President for Consumer Affairs in the Johnson Administration.

BESS MYERSON GRANT,
Commissioner of Consumer Affairs, Department of Consumer Affairs of the City of New York.

WILLARD WIRTZ,
Former Secretary of Labor.

CONSUMERS WARNED OF TRADE BILL DANGER—LEADERS URGE ACTION AGAINST IMPORT QUOTAS

WASHINGTON, D.C.—Major consumer groups across the country are being asked to join in a concerted effort to defeat the trade bill (H.R. 18970) now pending before Congress.

The appeal came in a strongly-worded letter from Lucy Wilson Benson, President of the League of Women Voters, Betty Furness, Chairman and Executive Director of the New York State Consumer Protection Board and former Special Assistant to the President for Consumer Affairs, Bess Myerson Grant, Commissioner of Consumer Affairs for the City of New York, and Willard Wirtz, former Secretary of Labor. The letter alerted national, state and local consumer groups of the inflationary aspects of the pending legislation and the need for their help in defeating it.

The signers warned: "Congress is now considering a trade bill which Virginia Knauer, the President's Special Assistant for Consumer Affairs describes as 'the most significant anti-consumer legislation now in Congress' . . . The legislation would have a disastrous direct effect on the American consumer—by raising prices and by limiting imports of low-cost products . . . We hope that you will let Congress know that the consumer movement of America will defend the interests of consumers wherever they are under attack."

The group pointed out that the three major items—textiles, shoes, and oil—affected by the proposed quota system are ones which are everyday necessities for millions of Americans. Particularly hard hit by quotas would be low-income families who would either have to pay higher prices for imported shoes and clothing or would find that quota limitations had driven lower cost goods off the market.

Mrs. Benson, organizer of the group, stated: "The representatives of the special interest industry groups are having a field day with this bill. It's time that someone spoke up for the special interests of the consumer—and we intend to do just that."

Mrs. Benson added that the League of Women Voters, a consistent advocate of liberal trade policies, believes that the now-pending legislation would push U.S. trade policy back to the "dismal days of protectionism and Smoot-Hawley and could trigger a worldwide trade war that eventually would mean higher prices for a great many more goods."

PRESIDENT NIXON'S COMMITTEE ON CONSUMER INTERESTS

Mrs. Virginia H. Knauer, Special Assistant to the President for Consumer Affairs, issued the following statement:

I am alarmed over the disregard of the American consumer evidenced by the restrictive trade bill presently before the House Ways and Means Committee. The President has registered strong objections to the measure, and I would hope his reservations will be taken into consideration by the Committee.

In many ways, this bill is the most significant "anti-consumer" legislation now in the Congress. The imposition of import quotas will hurt virtually every consumer in the United States, particularly lower income consumers.

Higher prices, fewer product choices, reduced competition, and a limited supply of imported products are the probable result of the proposed import quota legislation. Quotas of the type provided for by the bill will also raise the prices of imported commodities.

It is possible under the bill that some inexpensive foreign imported goods might not be available at all, and our lower income consumers may well find themselves unable to afford certain products.

The interests of consumers can best be protected by moving toward freer trade. The bill in the House of Representatives does the reverse: it reduces the flexibility of the President to lessen trade barriers, it preserves by law oil quotas which prevents the President from shifting to a tariff system, it mandates new quotas in certain industries, and it encourages other special interest groups to obtain quotas on their products—all of this at the expense of the American consumer.

I do appreciate that certain industries now face serious competition from imported goods, and I suggest that the appropriate relief for these manufacturers is through liberalization of adjustment assistance procedures.

If, as many economic experts believe, a trade war results and other nations do retaliate, there will be an even greater reduction in the supply of goods and price competition, and the effect on the consumer will be devastating.

Congress should put the welfare of the nation's consumers before the welfare of a few individual industries.

Clerk's Note.—Testimony taken from this point on was not subject to the objection raised in the Senate Chamber that the Committee on Finance should not meet during the session of the Senate. The Senate adjourned at 4:21 p.m. Testimony taken during the informal meeting of Finance Committee Senators begins at page 223 and proceeds to this point.

The CHAIRMAN. The Senate is no longer in session and, therefore, I am going to officially call the committee back into session and ask that these various statements that I have received from these different groups, many of which are on both sides of the argument, both for and against it, everything in the bill and for and against various and sundry things that are in the bill, be printed at the conclusion of the testimony of the next witness. These are a rather formidable list of statements that have been submitted to us by these various groups, many of them extremely outstanding in one respect or the other.

I next call the final witness for the day, Mr. Robert C. Jackson, executive vice president of the American Textile Manufacturers Institute.

We are pleased to have you with us.

STATEMENT OF ROBERT C. JACKSON, EXECUTIVE VICE PRESIDENT, AMERICAN TEXTILE MANUFACTURERS INSTITUTE; ACCOMPANIED BY A. BUFORD BRANDIS, INTERNATIONAL TRADE DIRECTOR OF THE INSTITUTE; AND MORTON DARMAN, CHAIRMAN, NATIONAL ASSOCIATION OF WOOL MANUFACTURERS

Mr. JACKSON. Mr. Chairman, my name is Robert C. Jackson, executive vice president, American Textile Manufacturers Institute. Sitting with me are Mr. Morton Darmon, wool and worsted textile manufacturer from Boston and chairman of the National Association of Wool

Manufacturers, and Dr. Buford Brandis, who is our chief economist. We are quite conscious of the time of day and our statement will be very brief. We would hope that we would have your permission to file a more comprehensive statement covering our case in much more detail.

The CHAIRMAN. Right, we will seek to provide you that opportunity and hope to put it in the record at the conclusion of your statement.

Mr. JACKSON. Thank you.

My statement is on behalf of the several fiber textile and apparel organizatioins listed on the cover sheet, and is in support of amendments pending before this committee that are patterned after H.R. 18970, as reported by the House Ways and Means Committee. While we support these amendments in their entirety, we shall deal particularly with that title relating to textiles and footwear.

During the intervals since we testified before the Ways and Means Committee on May 20, 1970, conditions in the industry have deteriorated even further. Textile outlays for new plant and equipment, which reached $820 million in 1966, are currently estimated at $580 million for 1970, which of course is in conflict with the average for all industries. Net profits after taxes, on sales, in the second quarter of 1970 were at an annual rate of 1.8 percent, as compared with the all-manufacturing average of 4.4 percent. I heard the testimony of previous witnesses saying our earnings were above all manufacturing. I am just puzzled as to where their figures came from.

As a percent of equity, profits are 4.8 percent, compared to 10.4 percent for all manufacturing. The most recent Government profits report shows the textile industry to be No. 19 and the apparel industry No. 20 in a ranking of the 20 major U.S. industries.

Our labor force has dropped by 77,000 jobs in the last 12 months and I believe a more current figure that was developed here this morning which we don't have as yet is above that. But furthermore, there are tens of thousands of our people on short time and short payrolls, which the unemployment figures don't indicate. It is estimated that just the increase in imports during the past 5 years alone has displaced more than 150,000 jobs in this country.

Jobs and job opportunity—basically, that is what this legislation is all about. The textile-apparel industry employs over 2.4 million people directly. Almost a million others are engaged in producing cotton, wool, and manmade fiber—our basic raw materials. Black employment in the industry currently is 14.3 percent, compared to 10.1 percent for all manufacturing, and the percentage is rising steadily. I believe the latest figures in South Carolina, incidentally, show that blacks constitute 40 percent of the new hirings. Women constitute about 45 percent of the textile work force and 80 percent of the apparel workers, as compared with a national average of only 27 percent. These are jobs that are not and cannot be readily mobile.

History has proved that the U.S. textile-apparel industry is remarkably unique in what it can offer people in employment opportunities regardles of race, sex, or educational background—provided there is a fair chance for the industry to grow and progress. The question essentially is this: Will these job opportunities be available in this country to those people and in those areas where the jobs are needed most, or will they be transferred to low-wage nations of the Far East?

In the last year before the decade of the sixties began, imports totaled just under a billion square yards. By 1965, the level was over 2 billion. The rate today is approximately 4.4 billion yards, more than 20 yards for every living American.

The sheer volume is taking its toll. We shall file for the record a list of 60 textile manufacturing plants, all large ones employing hundreds of people, that have closed their doors just since January 1969. We understand that the National Knitted Outerwear Association will file with the committee a list of well above a hundred knitting mills that have been forced to close recently.

We do not by any means ascribe imports as the sole reason for all these textile mill closings. But the hard fact is that in too many instances, imports were cited by management as a major factor.

This committee has been told that textile import restraints will cause greatly increased prices to consumers. This contention either misrepresents or misunderstands the bill. Nothing in the bill necessarily would alter substantially existing supply relationships between foreign and domestically produced textiles in the U.S. market. Moreover, import growth is permitted and anticipated. But beyond this, the proposal specifically provides for exempting from its provisions imports that are not disrupting the U.S. market, and for increasing imports if the supply of any textile article is inadequate to meet consumer demand at reasonable prices.

Mr. Chairman, time is of the essence. We know something about the long, tedious, frustrating effort on the part of our Government to negotiate a reasonable agreement with Japan, and of the cavalier manner in which the Japanese industry and government rejected this approach. Clearly, there is no alternative to legislation that would encourage negotiated agreements. Should this Congress fail to enact such legislation, we can only anticipate further erosion of the industry from imports produced under wages and working conditions that would be intolerable and illegal in this country. We strongly urge this committee to approve the trade bill, as an amendment to the social security legislation.

Thank you, Mr. Chairman, and the other members of this committee, for your courage and foresight in moving ahead on this vital issue at this time.

(Mr. Jackson's prepared statement follows. Hearing continues on page 403.)

STATEMENT BEFORE THE SENATE COMMITTEE ON FINANCE BY ROBERT C. JACKSON, EXECUTIVE VICE PRESIDENT, AMERICAN TEXTILE MANUFACTURERS INSTITUTE

Mr. Chairman, my name is Robert C. Jackson. I am Executive Vice President of the American Textile Manufacturers Institute here in Washington. My statement today is on behalf of the several fiber, textile and apparel organizations listed on the cover sheet, and is in support of amendments pending before this Committee that are patterned after H.R. 18970, as reported by the House Ways and Means Committee. While we support these amendments in their entirety, we shall deal particularly with that title relating to textiles and footwear.

My comments will be very brief, but we shall appreciate the Committee's permission to file for the record a more comprehensive statement, including statistical data that describes in some detail the acute textile-apparel import problem.

During the interval since we testified before the Ways and Means Committee on May 20, 1970, conditions in the industry have deteriorated even further. Textile outlays for new plant and equipment, which reached $820 million in

1966, are currently estimated at $380 million for 1970. Net profits after taxes, on sales, in the second quarter of 1970 were at an annual rate of 1.8%, as compared with the all-manufacturing average of 4.4%. As a percent of equity, profits are 4.8%, compared to 10.4% for all manufacturing. The most recent Government profits report shows the textile industry to be No. 19 and the apparel industry No. 20 in a ranking of the 20 major U.S. industries.

Our labor force has dropped by 77,000 jobs in the last 12 months, and tens of thousands of our people are on short time and short payrolls. It is estimated that just the increase in imports during the past five years alone has displaced more than 150,000 jobs in this country.

Jobs and job opportunity.—Basically, that is what this legislation is all about. The textile-apparel industry employs over 2.4 million people directly. Almost a million others are engaged in producing cotton, wool and man-made fiber—our basic raw materials. Black employment in the industry currently is 14.3%, compared to 10.1% for all manufacturing, and the percentage is rising steadily. Women constitute about 45% of the textile work force and 80% of the apparel workers, as compared with a national average of only 27%. These are jobs that are not and cannot be readily mobile.

History has proved that the U.S. textile-apparel industry is remarkably unique in what it can offer people in employment opportunities regardless of race, sex, or educational background—provided there is a fair chance for the industry to grow and progress. The question essentially is this: Will these job opportunities be available in this country to those people and in those areas where the jobs are needed most? Or will they be transferred to low-wage nations of the Far East?

In the last year before the decade of the Sixties began, imports totaled just under a billion square yards. By 1965, the level was over 2 billion. The rate today is approximately 4.4 billion yards, more than 20 yards for every living American.

The sheer volume is taking its toll. Here for the record is a list of 60 textile manufacturing plants that they have closed their doors just since January 1969. We understand that the National Knited Outerwear Association will file with the Committee a list of well above a hundred knitting mills that have been forced to close.

We do not by any means ascribe imports as the sole reason for all these textile mill closings. But the hard fact is that in too many instances, imports were cited by management as a major factor.

This Committee has been told that textile import restraints will cause greatly increased prices to consumers. This contention either misrepresents or misunderstands the bill. Nothing in the bill necessarily would alter substantially existing supply relationships between foreign and and domestically produced textiles in the U.S. market. Moreover, import growth is permitted and anticipated. But beyond this, the proposal specifically provides for exempting from its provisions imports that are not disrupting the U.S. market, and for increasing imports if the supply of any textile article is inadequate to meet consumer demand at reasonable prices.

Mr. Chairman, time is of the essence. We know something about the long, tedious, frustrating effort on the part of our Government to negotiate a reasonable agreement with Japan, and of the cavalier manner in which the Japanese industry and government rejected this approach. Clearly, there is no alternative to legislation that would encourage negotiated settlements. Should this Congress fail to enact such legislation, we can only anticipate further erosion of the industry from imports produced under wages and working conditions that would be intolerable and illegal in this country. We strongly urge this Committee to approve the Trade Bill, as an amendment to the Social Security legislation.

Thank you, Mr. Chairman, and other members of this Committee for your courage and foresight in moving ahead on this vital issue.

Textile Plant Closings Since January 1969

North Carolina.—Ellerbee Spinning, Ellerbee; Arista Mills, Winston-Salem; Erwin Mills, Cooleemee; Gamhill & Melville, Bessema City; Henry River Mills, Henry River; Highland Park Mills, Charlotte; Neisler Mills, Kings Mountain; Guerney Industries, Taylorsville & Thomasville; Warren Mills, Albemarle; Virginia Mills, Swepsonville; Balston Mills, Lincolnton; Laurel Mills, Rutherford; Uniroyal Inc., Gastonia; Erwin Mills, North Durham; Rockingham Mills, Rockingham; Kingston Mills, Durham; American & Efird, Lincolnton.

South Carolina.—Abney Mills, Brandon Plant, Greenville; Clifton Mfg. Co., Clifton; Edward Mills, Rock Hill; Greer Mfg. Co., Easley; Highland Park Mfg. Co., Rock Hill; Niagara Mills, Spartanburg; Red Bank Mill, Lexington; Indian Head, Ringerville.

Georgia.—J. P. Stevens Exposition Plant, Atlanta; Crown Cotton Mills, Dalton; Whitehall Mills, Whitehall; Piedmont Cotton Mills, East Point; Chatsworth Yarns, Chatsworth; Union Manufacturing Co., Union Point.

Others.—Abbott Worsted Mills, Wilton, N.H.; Aberfoyle Mfg. Co., Stamford, Conn.; Corsicana Cotton Mills, Corsicana, Tex.; Lacon Woolen Mills, Lacon, Ill.; Louisville Textiles, Louisville, Ky.; Pinecrest Cotton Mill, Pine Bluff, Ark.; Southan-Waucantuck Mills, Uxbridge, Mass.; Stanrick Mills, North Oxford, Mass.; Syntextiles, Johnson, R.I.; Tom O'Shanter, Manchester, N.H.; Texas Textile Mills, McKinney, Tex.; Texas Textile Mills, Waco, Tex.; Wyandotte Industries, Rochester, N.H.; Berkshire-Hathaway (plant in Rhode Island and plant in Massachusetts); Sparking Mills, West Warwick, R.I.; Burlington Industries, West, Texas Plant; San Quentin Cotton Mills, San Quentin, Calif.; Kilby Cotton Mills, Montgomery, Ala.; Paul Whitin Mfg. Co., Gilbertville, Mass.; Sanco Piece Dye Woolen, Phillipsburg, Mass.; Greenville Finishing Co., Greenville, R.I.; Pontiac Print Works, Warwick, R.I.; Stervo Dyeing & Finishing, Clifton, N.J.

Additional Closings Since June 5, 1970.—Aragon Mills, Aragon, Ga.; J. P. Stevens, Franklin & Tilton, N.H.; Modena Plant of Klopman Mills, Gastonia, N.C.; Elm Street Weaving Plant, Greensboro, N.C.; Grabur Plant, Graham, S.C.; Biddleford Sheeting Mill, Biddleford, Maine.

Mr. Chairman and members of the committee: This statement is a joint presentation by key textile and textile related trade organizations indicated on the covering page.

NATIONAL ASSET JEOPARDIZED

This presentation will be confined to outlining some of the major reasons why action is needed now to bring textile imports under reasonable restraint. Attached are a series of charts and the narrative thereto which discuss in more detail the components of what has become a most critical domestic and international problem.

We submit, Mr. Chairman, that the American textile-apparel industry, with its 2.4 million employees along with the additional hundreds of thousands of people engaged in the allied activity of cotton, wool, and man-made fiber production, is far too valuable a national asset to be traded off to foreign producers.

We appreciate as well as anyone that questions of international trade policy must be weighed carefully in the light of overall foreign and domestic economic and diplomatic policy. We do not want to see a so-called "trade war" any more than anyone else does, and there is no reason in the world why one should occur.

But the textile import problem has been unresolved for so long, and the accelerating impact of virtually unlimited volumes of low-wage textile imports is so great, that the future course of one of this nation's most basic and essential industries is being shaped not here, but in Tokyo, Hong Kong, Taipei and other overseas areas.

This is a problem that transcends any narrow geographic boundaries, partisan political considerations, or any particular product category. The basic issue, in simplest terms, is the very future of this industry and whether it will continue to function as one of the country's major sources for employment of men and women at all skill levels, as a customer for great amounts of supplies and services that sustain jobs in many other industries, and as a major consumer of important agricultural products.

That is why the Administration has spent months in a concerted effort to negotiate voluntary agreements with other textile nations on sharing the domestic market in a way that will sustain and expand the American industry's growth.

That is why the House Ways and Means Committee has approved legislation providing a mechanism for establishing reasonable restraints on textile imports. And, that is why you, Mr. Chairman, are moving ahead with legislation as the only solution to this long festering problem.

That is why all segments of the textile industry, including manufacturers, organized labor and all who comprise the fiber-textile-apparel complex are wholeheartedly behind a legislated solution.

UNENDURABLE IMPORT PENETRATION

But time is running out. No industry, no labor force, no nation can long endure the type and trend of low-wage import penetration which is assaulting the textile industry. And no nation that wants to preserve such a vital asset as this industrial-agricultural complex represents, should be expected to permit the import situation to get out of hand.

In less than 10 years we have seen a tripling of textile imports, creating a mammoth textile trade deficit now running well over a billion dollars.

The raw cotton industry is being battered by a volume of cotton textile imports which are equivalent to more than one million bales of cotton annually.

Man-made fiber textile imports have leaped geometrically, from 221 million square yards in 1963 to double that amount in 1965, then double again to 934 million in 1967, and double again to 1.8 billion yards in 1969. Currently they are running at the rate of 2.6 (through August) billion yards.

Wool imports have also increased relentlessly. Today, one out of every four yards of wool products sold in the United States is of foreign origin.

What does all this mean in lost production, and in lost potential? For one thing, obviously, it has meant lost job opportunities for thousands upon thousands of American men and women. The import volume in 1969 alone represented the displacement of well over a quarter of a million American textile and apparel jobs.

ENTIRE ECONOMY AFFECTED

This is not a regional problem, but a national one that strikes at the heart of our entire economy.

In New York City, for example, some 270,000 people are employed in the textile and apparel industry. The textile-apparel payroll of $1.7 billion in New York City is about equal to the city's annual welfare bill. More and more textile-apparel workers will be showing up on those welfare rolls unless the process of large-scale job transfers via imports is halted.

The several rather unique characteristics of the textile industry—its size, dispersion, its many competitive centers of initiative—have important social and economic significance for this country's future. It has been referred to as a "gateway industry", for example, because it offers opportunities for people of diverse skills and talents to hold down good jobs—ranging from those who can be trained in just a few weeks to scientists, engineers, data processors and other highly specialized technicians.

The industry employs an unusually large number of black Americans, considerably more than the national manufacturing average. Minority employment is increasing at a faster rate in textile mills than the average for all types of manufacturing.

It offers broad opportunities to women, likewise. Many women in textiles and apparel occupations gain supplemental income for families that simply could not make it otherwise. The Labor Department reports that 80% of the apparel workers and 43% of the textile workers are women. This is a fact not generally appreciated. Where would these thousands of women turn if it were not for their textile and apparel jobs?

EMPLOYMENT DECLINES

This is why we are so distressed when the labor force drops by 77,000 jobs in 12 months—as it has done—and our industry is forced to cut back substantially on operations and on investment in the new plants and equipment necessary to create the jobs of the future.

Large-employment industries such as textiles and apparel, that have a high increment of labor in the cost of their finished products, cannot avoid being particularly hard hit by concentrations of imports in unchecked amounts. Two or three examples will illustrate the kinds of situations happening at this very moment throughout the textile industry.

One is plant closings. No doubt you of the Committee are aware that these have been reported extensively in the press and they continue to occur.

Secondly, many companies are being forced to reduce their work week. Much of the basic textile manufacturing structure is geared to operate three shifts six days a week—this has has been the historical pattern for many years. Countless employees depend on that sixth day, at overtime pay, for extra money to make their payments on homes, cars, TV sets, refrigerators or what other necessities and luxuries they want. Cutting off this sixth day hurts them individually and of course slashes into the total economy of their communities.

Third, outlays of funds for plant and equipment are being either curtailed or postponed. These reductions have been substantial over the past three years. Yet modernization is essential for any company that hopes to stay competitive and keep its employees on the job.

UNCERTAINTIES OF THE FUTURE

With markets and manufacturing operations constantly being washed away by imports and nobody able to foresee where it all will end, the textile-apparel industry faces an uncertain future. Yet any business seeking to move forward in America's dynamic, competitive environment needs to set clear future goals.

Managements must make crucial long-range decisions. Money decisions: what they can afford to spend and whether they can earn it back.

Sound judgments are impossible to reach for textile executives who do not know when and where to expect the next attack from abroad. This cloud of doubt, of wondering what may happen next in imports, hangs over almost every meeting of textile company directors when forward plans are discussed.

If the items entering this country in such volumes were better designed or more attractive, more durable or more efficiently produced we would have little reason to object. But the vast majority of imports sell here primarily because they are cheaper; and they are cheaper for one reason only—they are made at wages and under working conditions that would be illegal and intolerable in this country.

Only until and unless the textile industry gains some measure of assurance that imports will not indefinitely go on gaining a larger share of the American market, can our industry look to the future with confidence. This whole nation stands to gain—in terms of broadening job opportunities, the buttressing of industries allied to textile activity, and the generation of economic activity in hundreds of cities and towns—if the import problem can be alleviated.

REASONABLE SOLUTION OFFERED

It is our opinion that an amendment to the Social Security Bill patterned after H.R. 18970, as reported by the House Ways and Means Committee, provides the framework for a fair and workable solution by assuring both domestic and foreign producers opportunities for sharing in the growth of the American textile market. The legislation originally introduced by the Chairman of the House Ways and Means Committee, Mr. Mills, and its counterpart S. 3723 offered in the Senate by Senator McIntyre, was strongly supported by the textile-fiber-apparel industry during the House hearings on the subject of international trade. While we recognize that the provisions of H.R. 18970 relating to textiles and apparel do not contain all the safeguards of H.R. 16920 and S. 3723, we believe that properly and aggressively administered, they can get the job done.

Furthermore, U.S. textile import policies under legislation of that type would remain so generous relative to those of other members of the General Agreement on tariffs and Trade that there should be absolutely no justification for any nation to retaliate against us or claim compensation from us.

We are well aware that certain textile exporting nations—Japan in particular—might threaten to reduce their buying of our raw cotton, soybeans, wheat or other commodities if their textile shipments to the United States were brought under orderly control. Contentions that this might happen do not hold up, however, in light of the realities of international trade as it actually is practiced today.

If the trade in commodity after commodity is analyzed, it will be seen that there is little, if any, relationship between what a major exporting country like Japan buys from us in relation to its textile shipments to us. The record shows quite clearly that Japan buys her raw materials wherever and whenever she can get the best deal, with no evident regard for her exports to a given country.

Take cotton for example. We have seen our exports of raw cotton to Japan decline steadily during the past 10 years—the very time that we have experienced such a phenomenal rise in textile imports. On the other hand, Mexico, which permits virtually no textile imports from Japan, sold Japan more cotton last season than the United States did.

Japan's strength rests upon her exports, almost one-third of which came to the United States last year. Last year she had a favorable balance of trade with the United States amounting to $1.5 billion. Surely the Japanese government would not be so reckless as to risk any sort of trade war with a nation that provides Japanese industry with its most lucrative market.

CONSUMER INTEREST

Another contention is that import restraints will bring an automatic increase in the price of textiles to consumers. This is either a misrepresentation of the bill's objectives or a misunderstanding of economic reality. First, there is nothing in the legislation that necessarily would alter substantially existing relationships between foreign and domestically produced textiles in the U.S. market.

Moreover, import growth is permitted and anticipated. So how can it be valid that prices automatically will increase? Specific provision is made for exempting imports which are not disrupting the U.S. market; and for increasing imports if the total supply of any textile article is inadequate to meet consumer demand at reasonable prices.

But there is an overriding consideration. It is that the United States textile industry historically has been and remains one of this country's most competitive big industries. Unlike some other major industries where a few companies dominate production and distribution, textiles is composed of hundreds of efficiently operated competitive companies constantly vying with one another for the business at hand.

Maintaining a highly competitive, expanding textile-apparel industry is the consumers' best assurance that he or she will receive quality textiles at reasonable prices. It is this competition to attract consumers' interest and to cater to their needs and wishes that has created in America the world's greatest textile market.

However, when any segment or large part of that market falls under foreign domination, the competitive influence on prices can be lost. Let's look at one area where this has happened. Prices of silk products have leaped 101.0% since 1957–59. The U.S. market for raw silk and silk textiles is dominated by foreign suppliers. Once any foreign interest gains this kind of domination, provisions of U.S. law for protection of consumers and employees alike—antitrust regulations, prohibitions against conspiracy to fix prices, wage and hour laws and so on—no longer prevail.

And in looking out for the consumer's interest, we must never forget that in order for a person to be a consumer, he must first be an income earner.

It is high time, Mr. Chairman, to end the present insanity of exposing the American home market to indefinite, no-end-in-sight increases in textile and apparel imports from countries that have no obligation whatsoever to feel any legal or moral responsibility toward American employees, consumers or communities.

This can be accomplished by amending the Social Security Bill with legislation along the lines of H.R. 18970. Thank you for this opportunity to present our views.

TEXTILES AND INTERNATIONAL TRADE

The textile import problem has been growing apace for more than a decade. It has now reached proportions which threaten future viability of the American fiber-textile-apparel complex, unless reasonable controls over import growth are put in place promptly. We appreciate the opportunity to review the situation for this distinguished audience.

Chart 1.—Here is the growth in our imports of textiles and apparel made from man-made fibers, cotton, and wool during the decade of the Sixties. The data are in square-yard equivalents as computed by the Commerce Department. You can see that in a 10-year period this volume has swollen four-fold from 976 million yards in 1959—then an all-time record—to nearly 3.7 billion in 1969. During the first seven months of 1970 while domestic production languished the flow spurted another 19%, reaching an annual rate of nearly 4.4 billion yards. In this context wool textile imports look small by comparison, but the next chart puts the volume of our wool imports in better perspective.

Chart 2.—You can see, for example, that woolen and worsted imports during 1969 accounted for $410 million. Wool textile imports have captured 25% of our domestic market, and, in the case of worsteds, 50%. The erosion of woolen and worsted production has been severe.

Chart 3.— Since 1962, cotton textile imports have been subject to control under the GATT Long Term Textile Arrangement (LTA).

When any plan for controlling the flow of shipments fails to cover all textiles regardless of fiber content it only shifts the burden of imports from one area to another. This has happened under the LTA. It was not geared to the dramatic changes in fiber use occuring since 1962. Since its inauguration early last year the Nixon Administration has tried—diligently, but unsuccessfully—to negotiate a similar control arrangement for imports of man-made fiber and wool textiles. Imports of textiles and apparel manufactured from man-made fibers skyrocketed so fast that they now exceed those of cotton products. They have grown 43% in 1970 over 1969. Unless restrained, man-made fiber textile imports can be expected to continue to take ever larger shares of this important market.

Chart 4.—It is not inefficient U.S. production techniques that is the cause of the import explosion; quite the contrary, the American textile industry is the most efficient in the world.

The British Textile Council published an exhaustive study last year of the relative productivity in major textile industries around the world. In this chart spinning productivities are compared.

The U.S. industry performance is more than twice that of the Japanese and more than three times that of the British.

Chart 5.—Here productivity in spinning is combined with productivity in weaving, with U.S. performance taken as 100%. Once again the American industry shows up as by far the most efficient, with the United Kingdom at 37% of U.S. productivity and Japan third at 32%. We can take pride in U.S. textile technological expertise.

Chart 6.—Items made abroad at wages far below the legal U.S. minimum give foreign producers cost advantages that cannot be overcome even by superior American efficiency. U.S. wages are 5 times higher than in Japan and about 8 times greater than in Hong Kong, while Korea, Taiwan and other Asian countries show a wider disparity.

It is this factor alone which gives appeal to imports. Generally speaking they are copies of American products simply made at these lower wages without innovative features.

Chart 7.—Contrary to claims often heard, the wage gap between the United States and its major foreign competitors is not narrowing, but widening. This chart shows that the gap with Japan in 1960, for example, was $1.41. In 1970 it is up to $1.98—a 37% increase in the gap over the 10 year period. Japan's textile wages could have been increased 100% or more but the actual dollars-and-cents amount of rise fell far short of the increase in wages that has taken place in the United States. And, Japan pays the highest wage of the Asian nations.

Chart 8.—In spite of rising costs of wages and materials in this country, the textile industry has managed to keep prices relatively stable. Textile wages have risen 58% above the 1957–59 average, and will advance further this month. At the same time, wholesale prices for textile mill products are virtually unchanged. Not many items have held the line against the inflationary spiral as well as textiles.

Chart 9.—This point comes out even more clearly when you compare the price performance of the textile industry with that of all manufacturing industries. Here you observe that wholesale prices of all manufactured commodities have risen 17% above the 1957–59 base, in contrast with no change in textile prices.

The best way to hold the textile price line for consumers is to encourage healthy competition between the 7,000 textile plants and 27,000 apparel plants in the U.S. Once the control over a major part of a product line falls into the hands of foreign interests, provisions of U.S. law for the protection of American consumers and employees—antitrust regulations, prohibitions against price fixing conspiracies, minimum wage requirements and the like—go out the window. No foreign producer has any obligation to feel any legal or moral responsibility toward this country's consumers.

Pending legislation to regulate the growth of textile imports will have no significant effect on consumer prices. Imports have been rising faster than domestic production. While the import legislation should slow this rapid rise, it will still permit importation of large volumes of products from textile producing nations around the world.

Prices are affected by many factors from day-to-day, including the general business cycle, deflationary or inflationary government monetary policy, shifts in consumer tastes, and other factors.

The textile quota provisions of the pending trade bill are so generous that the present "product mix" of the tremendously wide variety of men's, women's and children's clothing in low, medium and higher priced brackets will continue to be available at the retail counter.

The proposed legislation also provides for annual increases in the already high levels of textile imports.

Approximately half of the textile products in use in the United States today are already covered by import restraints. For almost a decade, as mentioned earlier, international trade in cotton textiles has been regulated under terms of the GATT Long-Term Cotton Textile Arrangement, a multilateral agreement among 30 major cotton textile producing nations, including the United States. During this entire period, there has been no apparent effect on domestic cotton textile prices. Under the pending legislation, which would cover man-made fiber and wool textile articles, the day-to-day prices of hundreds of articles of clothing will be determined by the same supply, demand and national policy considerations that have influenced prices of cotton textile products. Consumers will still be able to take advantage of any lower import prices that importers and retailers will be willing to pass along. While import legislation is not expected to have any significant impact on textile prices, it will help prevent the rapid destruction of textile and apparel jobs in many small U.S. communities.

Some examples may be useful to illustrate the fact that overall supply, demand and national policy considerations are the prime determinants of commodity prices in the American market. The U.S. Department of Labor's all-commodity Wholesale Price Index is a widely used measure of changes in prices of a large composite of basic commodities and products. The index is currently about 17% above its 1957–59 base of 100.

Similar index measurements for the components of the all-commodity index show that petroleum (under import quota) prices are up about 4% while coal (with no import quota) is up 47%. Wheat imports are strictly controlled, yet the price of wheat dropped 31% in the 20-year period between 1950 and 1970, while the price of corn with no quota protection dropped only 13%. There are many examples of price increases in products which have no import controls.

Maintaining a highly competitive, expanding domestic textile-apparel industry is the consumer's best assurance that he or she will continue to receive quality textiles at reasonable prices. However, when any segment or large part of that market falls under foreign domination, the competitive influence on prices can be lost.

A good example of what happens when a textile product falls under foreign control is silk. Japan and Italy dominate the world's silk textile production. Since 1960, the wholesale price index of silk textiles has increased some 89%. During the same period, the price of all textile mill products—operating in the competitive U.S. market—has increased not at all, and the combined textile and apparel index is up about 9%.

We have not yet reached the point where foreign influence dominates the U.S. textile and apparel markets, but unless prompt control action is taken that point could soon be reached with respect to many different textile products, and the U.S. consumer will be the loser.

Chart 10.—Taken together as a single industrial complex, textile and apparel manufacturing form a key foundation element in America's economic structure. Not only does this industry make products essential to people and vital to national security, but it fills a primary role in providing livelihoods and economic activity for hundreds of communities, large and small, urban and rural, throughout the land.

The textile-apparel industry directly employs some 2.4 million men and women, in a broad range of occupations. It pays its employees close to $11 billion a year. It generates revenues for government—more than $2.5 billion in federal, state, and local tax revenues.

Chart 11.—The industry's impact on the economy of the United States goes even further. In a normal year it buys $4 billion worth of fiber, including two-thirds of the output of this country's 300,000 cotton farms and all of the domestically produced wool, $600 million worth of chemicals and dyestuffs; $630 million in plant and equipment and millions more for other supplies and services. Another million workers are employed in producing the raw fiber, machines, chemicals, *etc.* used by the industry.

Chart 12.—Of the 20 million manufacturing employees in this country, the textile-apparel industry directly employs 2.4 million, or one in every eight. A broad employment base such as this comprises a national asset of top importance, because the United States stands near the head of the list of nations depending on manufacturing activity for employment of its labor force. To accommodate the great numbers of people involved, our country needs more manufacturing occupations, a vigorously expanding industrial employment level.

Chart 13.—As you can see in this chart, non-white employment in the textile industry has grown from 3.3% in 1960 to 14.3% currently, whereas the present level for all manufacturing is 10.1%. Negro employment in the textile industry has advanced four times faster than the national average for all manufacturing since 1960—and in certain textile areas the percentage of black employees is much more concentrated, running as high as 40%.

Another significant aspect of textile-apparel employment is the number of women involved. Women constitute about 45% of the textile labor force and 80% of the apparel workers. This compares with the all-manufacturing average of 27%. In terms of opportunities for people, regardless of race, sex, educational background or their line of interest, the textile-apparel industry is remarkably unique as to what it can offer—that is, provided it has a reasonable chance to grow and progress along with the nation's economy as a whole.

These important social contributions of the textile industry are important and significant to our national welfare. They are vital to our national commitment to full employment.

Chart 14.—One the the most alarming aspects of this entire import situation is the impact it is having on capital investment. In our dynamic economy, industry must constantly innovate and modernize. No industry can stand still. As matters stand, it is extremely difficult for United States manufacturers to plan ahead with any degree of certainty. In the past, when government actions created confidence, the textile industry invested heavily in the future. As this chart illustrates, outlays for new plant and equipment rose from $380 million in 1962, when the cotton LTA controls went into effect, to $820 million in 1966. After that they began to decline—a situation which cannot be tolerated for very long—and are currently estimated at $580 million for 1970.

We are concerned by the fact that textile machinery sales on a world wide basis as reported by both European and U.S. manufacturers are very strong except in the United States.

This we believe is due to the depressed economic status of the textile industry in the U.S. as well as to a lack of confidence in the future.

This same trend in the area of research—and for the same reasons—could be equally serious; for innovation, relatively high productivity and efficiency are the main strengths of the U.S. textile industry.

Chart 15.—Profits in the textile industry, whether measured on sales or equity, lag behind other manufacturing industries. Net profits after taxes, on sales, in the second quarter of 1970 were at an annual rate of 1.8% compared with the all-manufacturing average of 4.4%. That is a rate of only 41% of the average for all U.S. industries. Expressed as a percent of equity, textile profits are 4.8% compared to 10.4% for all manufacturing. It appears as though a further deterioration in textile profits was recorded in the third quarter of 1970.

Revival of textile investment depends upon revival of textile profits and that, in turn, depends in good part on slowing down the import blitz. Job growth in the industry will depend upon plant expansion here rather than overseas to serve the growing American market.

Chart 16.—The upper line on this chart shows how imports have been rising. This is shown in terms of dollars—the foreign market price of textiles and apparel, which has soared to $2.2 billion (annual rate) in 1970. The lower line shows the total dollar value of textile and apparel products exported from the United States to other countries: $0.8 billion 1970 annual rate. The current textile trade deficit is at a $1.4 billion annual rate.

You would have to go all the way back to 1957 to find a time when the United States had a favorable textile trade balance. The result is a constantly widening textile trade gap—it is getting bigger every year. Where will it end? Can the United States afford to see this gap keep growing indefinitely?

Chart 17.—Much of this trade gap is accounted for by Japan. Japan has some of the most restrictive trade regulations in the world to protect its own market, but at the same time seems to feel it should have completely free access to our market. In 1968, Japan had a favorable world textile trade balance of $1.7 billion. It sent $478 million worth of textiles to the United States while importing only $11 million from us. (In 1969 we received $540 million worth of textiles from Japan, while we exported only $15 million worth to her.) On the other hand, the European Free Trade Association nations received $45 million in textiles and exported $36 million worth to Japan. The European Economic Community imported $59 million worth of textiles from Japan while shipping it $35 million worth.

No other developed nation, nor trading group, provides Japan with the favorable trade balance that we do. It is evident that other countries restrain the quantity of their Oriental imports to the detriment of the United States, which has heeded the GATT rules and maintains virtually the only "open" textile market in the world.

But this does not tell the entire story. Included among the LDC's are such countries as Hong Kong, Taiwan, and Korea. Much of what they further process and export to the United States was originally produced in Japan.

Yet the Japanese are in the forefront of those threatening "retaliation" and a "trade war," if the United States Government applies those generous textile quota provisions of the pending legislation endorsed by the President last June.

Any practical decision to retaliate against American exports would have to come from the Japanese Government rather than her business firms. But Japan's meteoric rise to economic power would have been impossible without direct help from this country and without our investment of American lives and treasure in Korea and Vietnam. Japan, like many other countries, has gained upon us in economic power while we bore the cost of defending her vital interests.

Even if she were morally capable of striking us now in our time of trouble, she could not do so economically without incredible recklessness. Her strength rests on exports, and nearly one-third of her entire export trade is with the United States. Last year she sent us $5.0 billion worth of goods and imported only $3.5 billion from us. Would she gamble this kind of trade position by arousing our farmers and all our people against her? Would she be so irrational as to risk starting a trade war with a country which buys $1.5 billion more goods from her than it sells to her?

During the first six months of 1970, 67% of our textile imports came from five countries. In order of importance these were: Japan, Hong Kong, West Germany, Taiwan and South Korea.

The next five countries shipped in a total of 13% bringing the total for the first ten countries to 80%. The second five countries were: Italy, United Kingdom, Canada, Mexico and France.

Chart 18.—More than any other large industry, textile plants are located in small communities. About 60% of the industry's workers are employed in non-metropolitan area. In some states this figure runs between 70 and 85%.

Apparel is more of an urban industry than textiles, with about two-thirds of its jobs in cities. Visitors to New York City quickly recognize the importance of the apparel industry to that large city. One in three of all manufacturing jobs there is provided by the clothing industry.

In hundreds of small towns and villages throughout the nation, textile and apparel plants are the only employers of significant numbers of people. As a result, these towns and villages are largely dependent on these plant payrolls for their survival. If a company is forced to reduce its work force or, worse, to close its doors, the community suffers a crippling catastrophe.

Today the U.S. textile industry faces a crisis. The growing flood of imports coming primarily from the Oriental countries is being directed to our market by inequities in international trade which find the markets of many other developed countries virtually closed to these goods. World textile trade has become increasingly unbalanced.

Our studies of Far Eastern plans for expansion of textile and apparel production in the early 1970's indicates a compelling need for restraint in the rate of growth of man-made fiber and wool textile exports to the U.S. market.

We cannot sacrifice the job-producing potential of this vast industry—and the existing 2.4 million jobs in it—on the altar of free trade when in fact free trade does not exist in textiles.

The Nixon Administration sought for the first 17 months of its existence to negotiate multilateral and then bilateral agreements to effect reasonable restraints on man-made fiber and wool products. The intransigence of our trading partners led to the recommendation that legislation be adopted to encourage such voluntary agreements.

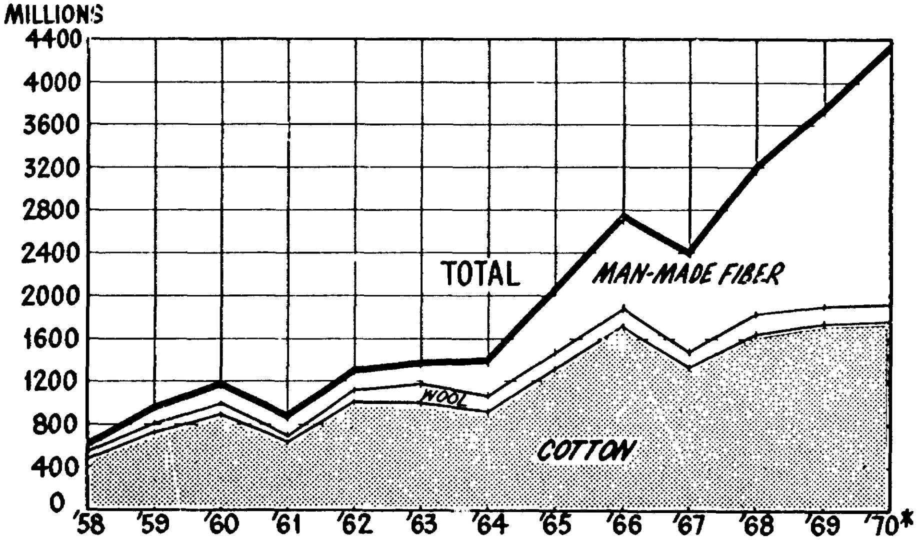
The pending legislation is very permissive and gives the President wide latitude to accommodate the solution to our national interests. It is quite mild and reasonable, and yet holds the potential of restoring confidence in a major segment of our national economy.

This is the segment of our economy which brought the industrial revolution to the United States and which today serves the American consumer with such a variety of style and choice that imports are only copies of American products—not overseas innovations.

Textiles have been traded among the peoples of the world since mankind's earliest days. The solution today is not unique. It merely involves extension of the existing practice in the previously predominant area of cotton textiles to man-made and woolen textiles. Furthermore, it extends to the U.S. market the bilateral or unilateral restraints found virtually everywhere else on the globe.

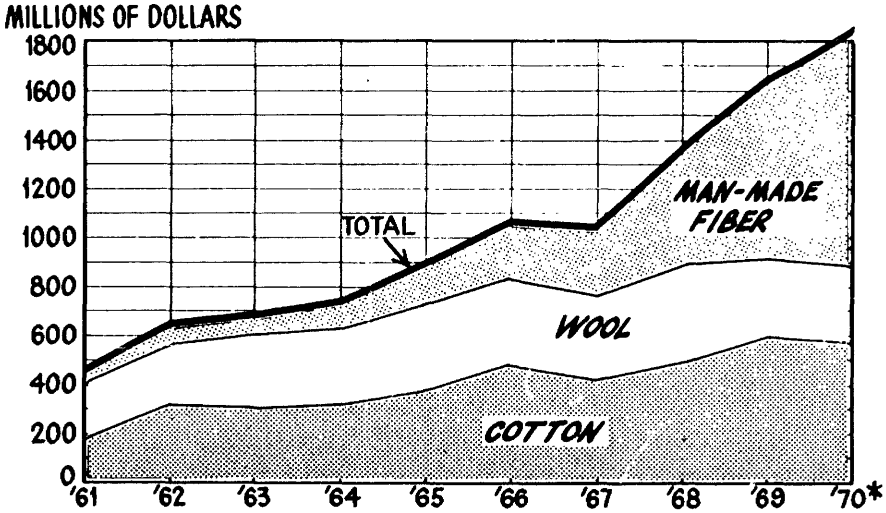
Thank you.

IMPORTS OF TEXTILE MANUFACTURES
(MILLIONS OF EQUIVALENT SQUARE YDS.)



Source: U.S. Dept. of Commerce *Annual Rate based on 1ST seven months

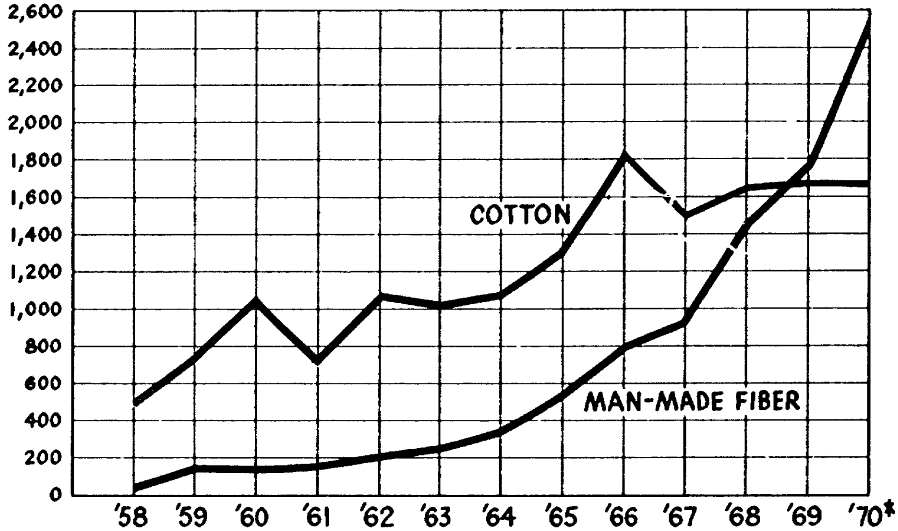
UNITED STATES IMPORTS OF COTTON, WOOL AND MAN-MADE FIBER TEXTILES



Data: U.S. Dept. of Commerce *Annual Rate based on 1ST seven months

IMPORTS OF MAN-MADES EXCEED COTTON

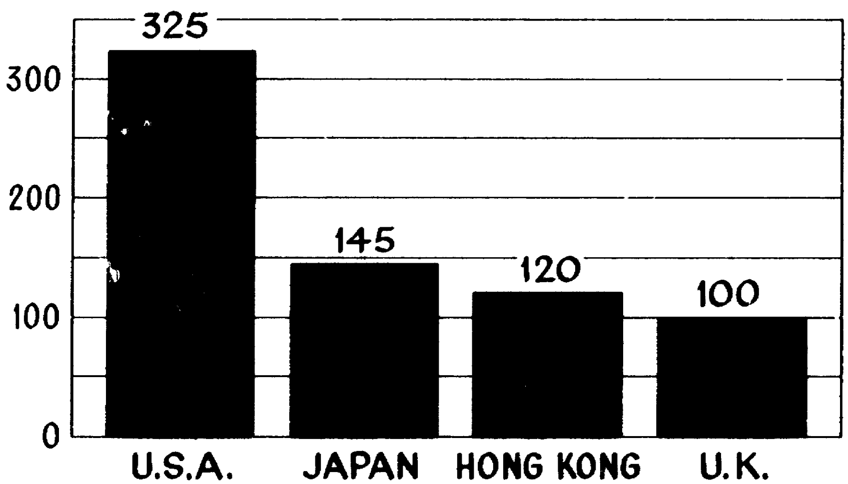
(MILLIONS OF EQUIVALENT SQUARE YARDS OF TEXTILES)



Source: U.S. Department of Commerce *Annual Rate based on 1st seven months

LABOR PRODUCTIVITY IN SPINNING

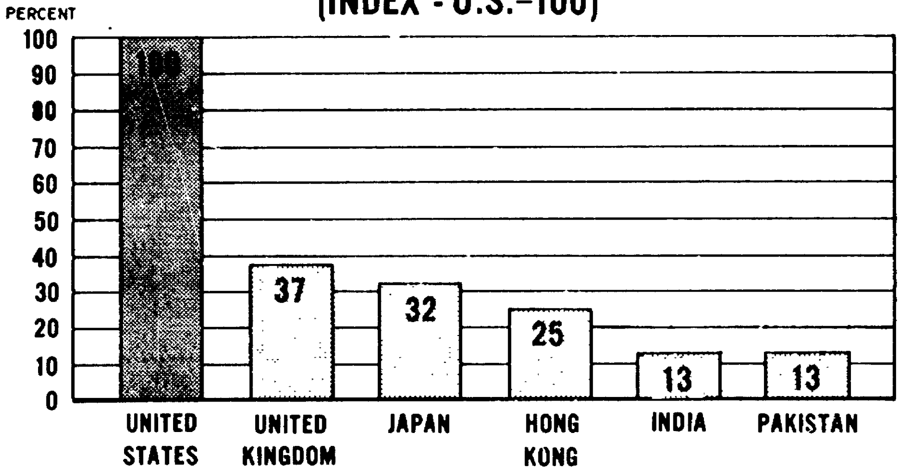
(INDEX: U.K. = 100)



SOURCE: THE TEXTILE COUNCIL (MANCHESTER, ENGLAND: 1969)

LABOR PRODUCTIVITY IN TEXTILES 1967

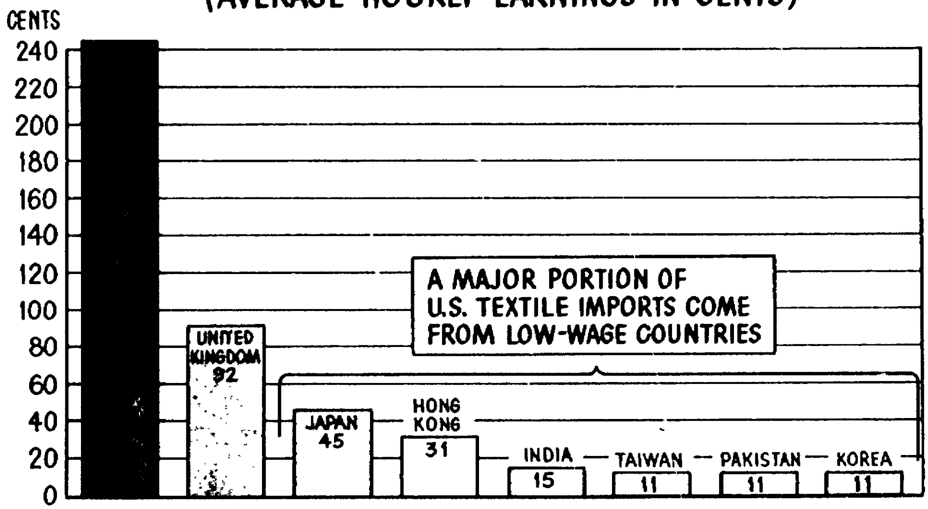
(INDEX - U.S.=100)



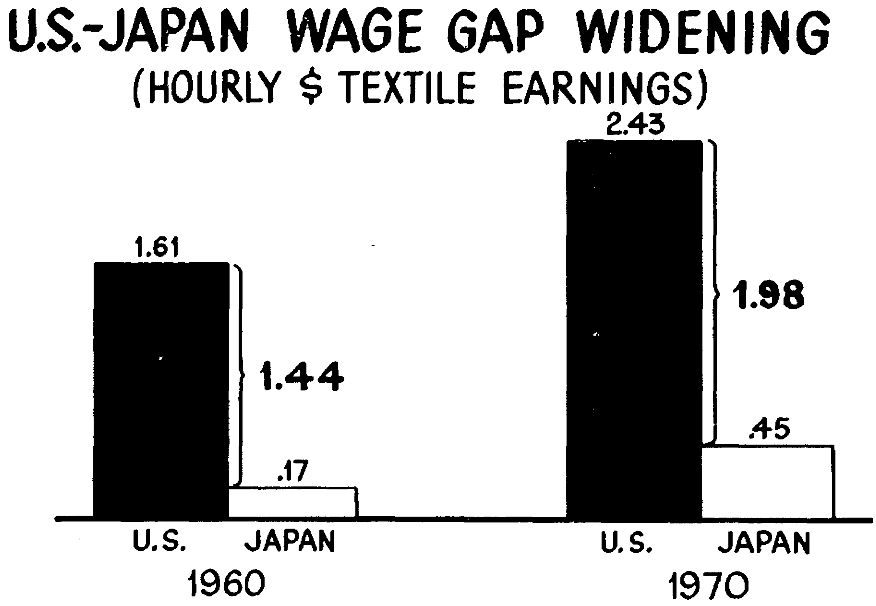
SOURCE: TEXTILE COUNCIL (MANCHESTER, ENGLAND 1969)

WORLD TEXTILE WAGES

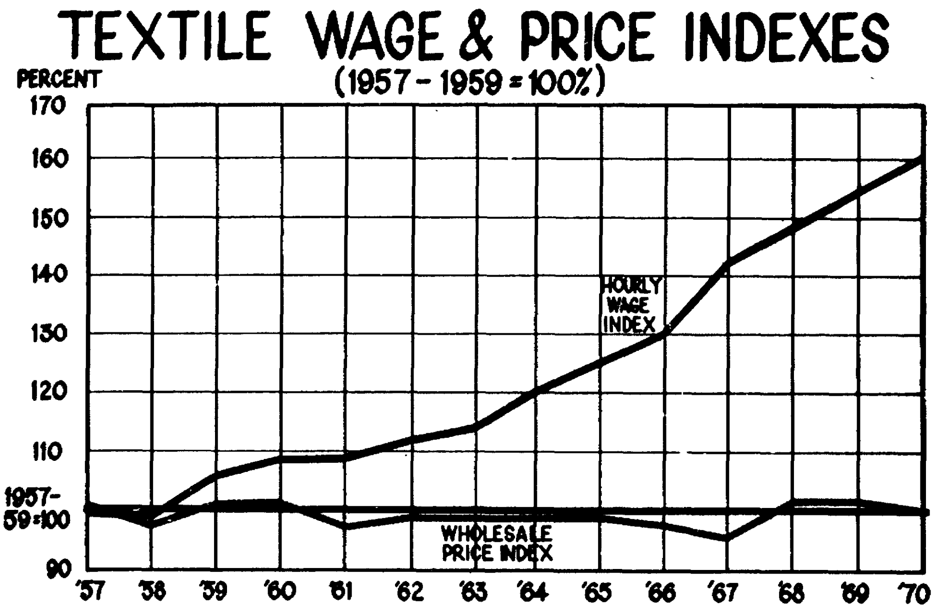
(AVERAGE HOURLY EARNINGS IN CENTS)



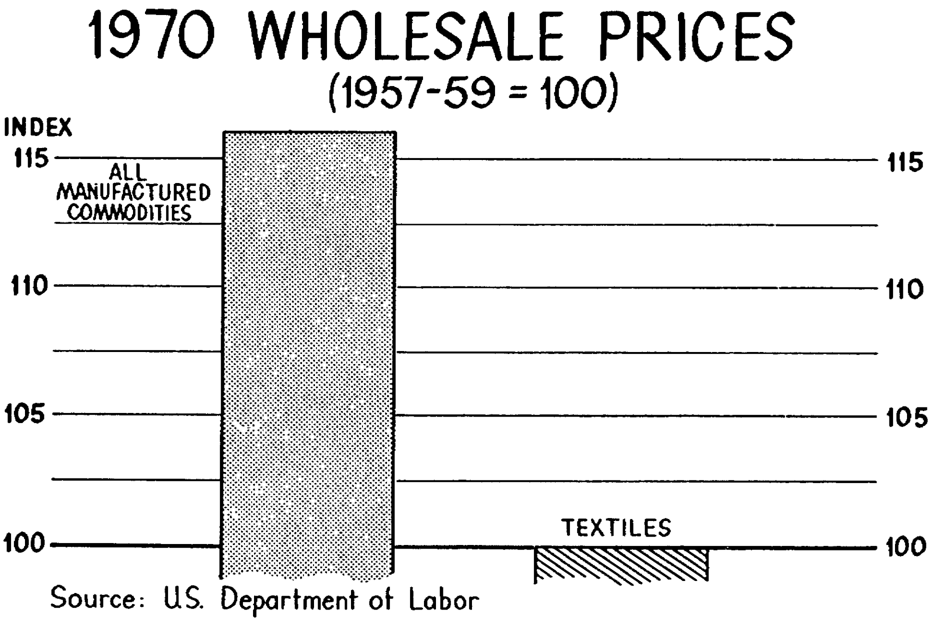
Source: U.S. Department of Labor



Source: U.S. Department of Labor



Source: U.S. Department of Labor



TEXTILE-APPAREL INDUSTRY

A MAJOR FACTOR IN U.S. ECONOMY

- JOBS - 2.4 MILLION
- PAYROLL - $10.8 BILLION
- FEDERAL, STATE AND LOCAL TAXES - $2,500,000,000

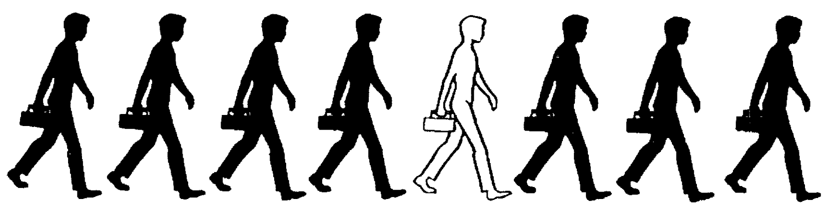
TEXTILE-APPAREL INDUSTRY

A MAJOR FACTOR IN U.S. ECONOMY

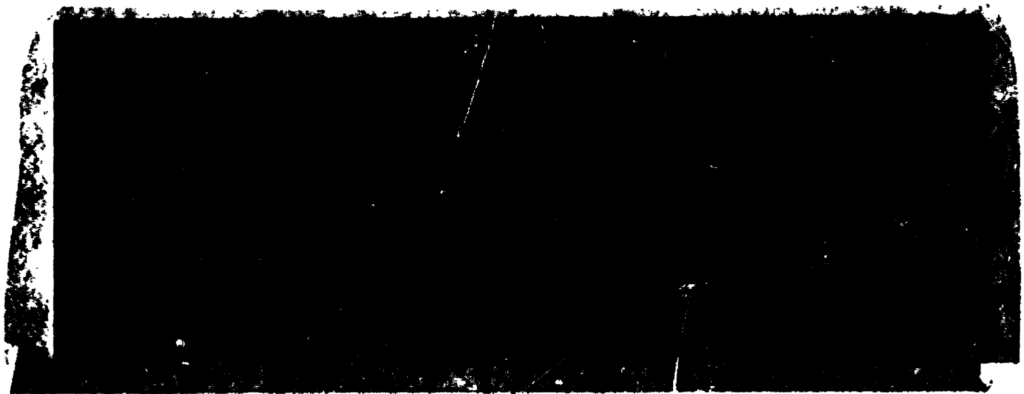
PURCHASES ANNUALLY

- FIBERS – $4.0 BILLION
- PLANT AND EQUIPMENT – $630 MILLION
- PACKAGING PRODUCTS – $240 MILLION
- CHEMICALS & DYESTUFFS – $600 MILLION
- POWER AND FUEL – $420 MILLION
- TRUCKING SERVICES – $100 MILLION

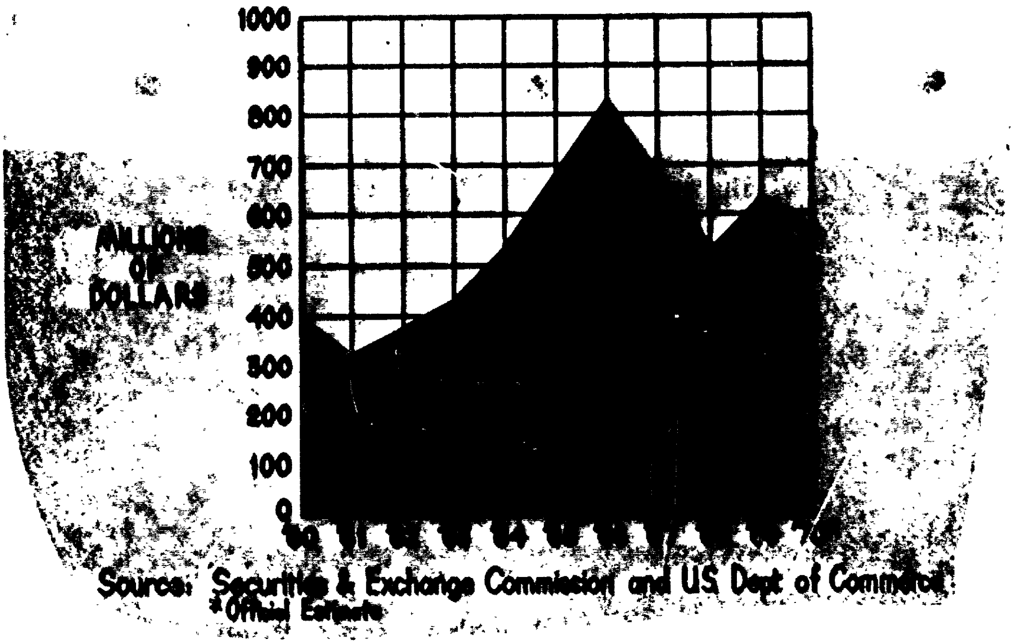
ONE IN EIGHT OF ALL U.S. MANUFACTURING JOBS IS IN TEXTILES & APPAREL



ALL INDUSTRIES	TEXTILE & APPAREL INDUSTRY
20.1 MILLION	2.4 MILLION



NEW PLANT AND EQUIPMENT EXPENDITURES



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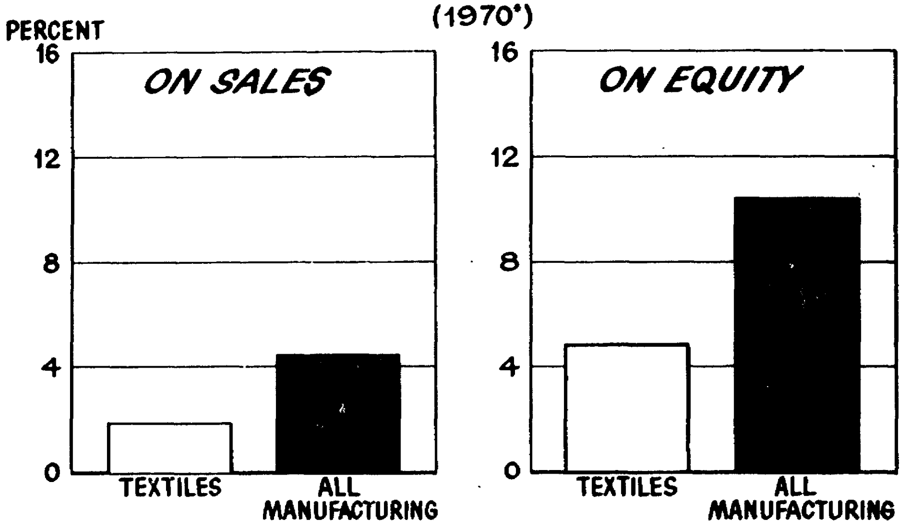
INDUSTRY PROFIT RATE

(1970*)



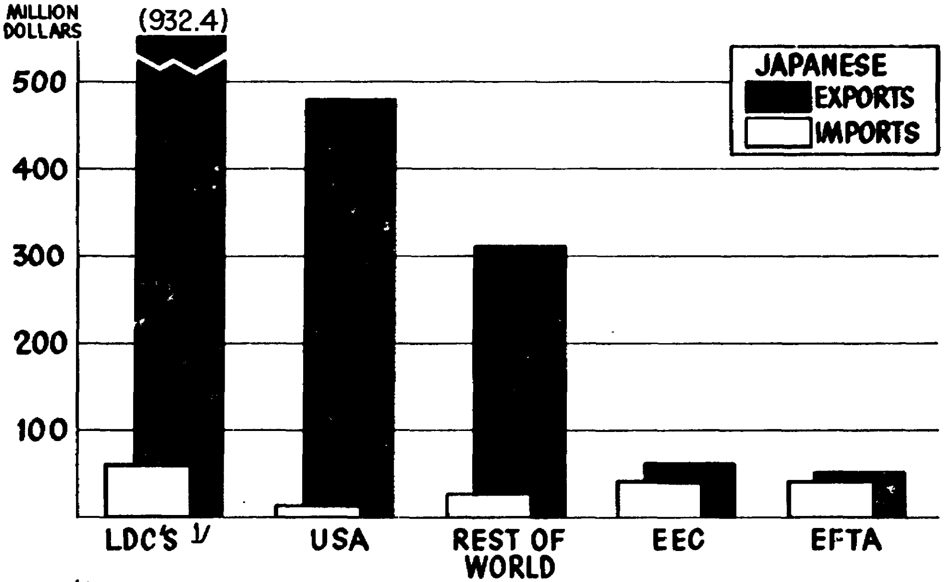
SOURCE: FTC-SEC

*SECOND QUARTER FIGURE

TEXTILE IMPORT-EXPORT DEFICIT

Source: U.S. Department of Commerce *Annual Rate based on 1st six months

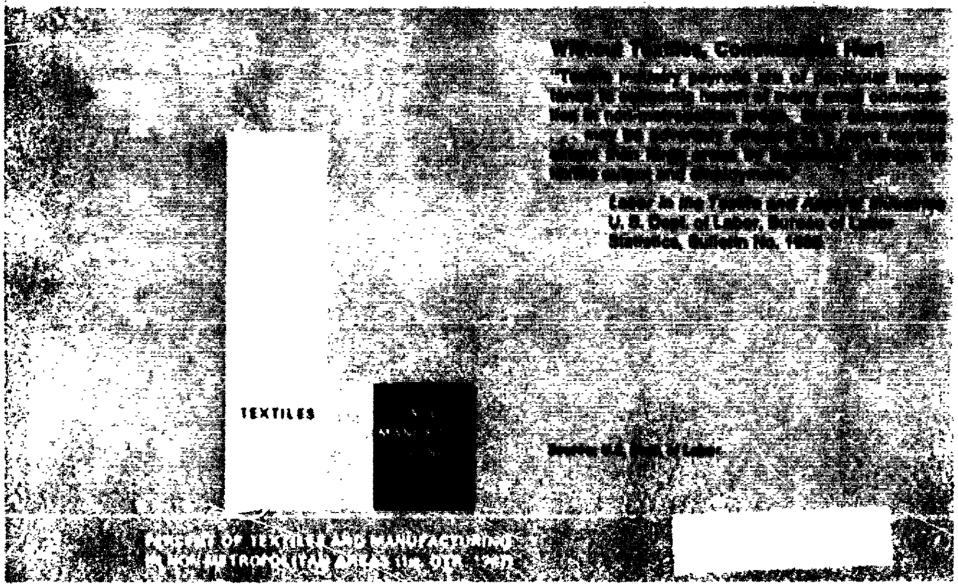
TEXTILE TRADE OF JAPAN



1/ Economic Class II Countries
Source: United Nations

61% OF ALL TEXTILE JOBS ARE LOCATED IN NON METROPOLITAN AREAS

79% OF ALL MANUFACTURING JOBS ARE FOUND IN URBAN METROPOLITAN AREAS



The CHAIRMAN. Thank you very much for your statement, Mr. Jackson. I think you have made a very brief but I think indisputable presentation. Of course, you didn't need to convince this Senator. I sat through some trade hearings about 2 years ago involving this subject and I was convinced then that your industry very much needed some type of help beyond that which it was getting and your situation is worse if anything than it was then. So I am as convinced as Secretary Stans about what you are saying for the need of relief with regard to your industry is correct, and perhaps not generally known but when the Senate agreed with what you were saying and voted an amendment to one of our bills some years ago I think I fought harder than anybody among those Senate conferees to try to make the House agree to accept that. And I think what is happening now and what has happened since that time shows that I was right and, not that I was right but that you were right, and——

Mr. JACKSON. We recall that with much appreciation, and it is a tragedy that your views didn't prevail at the time, because it would have avoided a situation that has now become much more complex and troublesome.

The CHAIRMAN. Those were the views of you and Senator Hollings and Thurmond and various others who pointed out the problem, and I am pleased to see at long last an administration finally recognizes what you are saying is correct and that there is no alternative but to recommend some form of relief and I hope that we can enact it during this Congress.

Mr. JACKSON. Thank you.

The CHAIRMAN. Even though that may have to be as an amendment to the social security bill and I know we will have some objection to that type thing being considered.

Mr. JACKSON. Mr. Chairman, since I have been sitting in the room quite awhile, may I comment that we were quite disturbed and in fact disappointed by some of the figures that were used by one or two of the witnesses this afternoon. We are filing for the record very comprehensive statistical data and charts to make it easier to follow, all based on official government information and figures. We do hope that your staff will have an opportunity to examine it carefully because we would love to spend 2 or 3 hours trying to clarify some of the statements that have been made here this afternoon.

The CHAIRMAN. Well, the only way that I can see that this Nation will do well is for the entire Nation to do well, not just one segment of the economy but for all of us to do well, and I cannot support this theory that one segment of the Nation or one segment of the economy should do well at the expense of the others. Obviously, the textile industry is suffering and it has been required to absorb far more than its share of imports, other things could be absorbing more and if they were absorbing as much as you are they would be screaming even more loudly than you have complained, I am positive. So thank you for your statement.

Senator Hansen?

Senator HANSEN. I have no questions, Mr. Chairman, but as I assume we are about to adjourn these hearings just let me express my appreciation to you, sir, for having moved ahead with them. You have heard a great number of witnesses on both sides of the issue. I think we have had some fine testimony that will supplement that very voluminous record that was put together in the House, and while there are those who criticize this committee for the shortness of these hearings, I think that more familiarity with the facts of life as to how the Congress of the United States works and operates will appreciate there are some very good reasons for scheduling the hearings as you have done. I commend you for your fairness and it has been my privilege to participate.

Mr. JACKSON. Thank you.

The CHAIRMAN. Thank you very much.

Well, then, the committee will meet in executive session at 10 o'clock tomorrow.

(Whereupon, at 6:10 p.m. the committee was adjourned.)

APPENDIX A

Excerpts From the Congressional Record Relative to the Hearings

(October 9, 1970)

COMMITTEE MEETINGS DURING SENATE SESSION

Mr. MANSFIELD. Mr. President, I ask unanimous consent that the Subcommittee on Internal Security of the Committee on the Judiciary, the Subcommittee on Intergovernmental Relations of the Committee on Government Operations, and the Subcommittee on Employment, Manpower, and Poverty of the Committee on Labor and Public Welfare be authorized to meet during the session of the Senate today.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered.

Mr. MANSFIELD. Mr. President, I ask unanimous consent that the Committee on Finance be authorized to meet during the session of the Senate today.

Mr. SCOTT. Mr. President, on this matter I must, by request, reluctantly object. The objection is not from me. I should like the committee to meet.

The ACTING PRESIDENT pro tempore. Objection is heard.

(October 12, 1970)

COMMITTEE MEETING DURING SENATE SESSION—OBJECTION

Mr. BYRD of West Virginia. Mr. President, I ask unanimous consent that the Committee on Finance be authorized to meet during the session of the Senate today.

Mr. JAVITS. Mr. President, reserving the right to object—and I shall object—I wonder whether the distinguished acting majority leader would yield to me for a statement.

Mr. BYRD of West Virginia. I am glad to yield to the Senator from New York for that purpose.

Mr. JAVITS. Mr. President, this question arose on Friday, during my absence. I was in New York, serving as a delegate to the United Nations this year.

I believe—I have not been able to search the history in the short time available—that this is the first time in my career in the Senate or in the House of Representatives—which I say now spans over 20 years—that I have ever objected to a committee session.

I did not object to the sessions generally. I have never done that. I hope that I never will. I hope that I will never have to object to another committee request. I shall not object after today, I say in deference to the chairman and to the members of the Finance Committee. But I really felt there was a very serious issue at stake. It is not proper that on rather precipitous notice 2 days of hearings be held, in order that so portentous a piece of legislation affecting the foreign policy and the economic policy of the United States should be rushed through a committee with only the pretense of hearings and without adequately considering the substance.

Some 15 Senators requested hearings of the chairman of the committee.

Mr. President, I ask unanimous consent that the letter of request, dated September 25, 1970, be printed at this point in the Record.

(There being no objection, the letter was ordered to be printed in the Record, as follows:)

SEPTEMBER 25, 1970.

Hon. RUSSELL B. LONG,
Chairman, Senate Finance Committee, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: We are becoming increasingly concerned over threats to attach the trade bill, as reported out of the House Ways and Means Committee, as an amendment to one of the remaining pieces of major Finance Committee legislation, such as social security or welfare.

It is our feeling that the bill as now written constitutes a radical departure from our past policies of expanding and opening up world trade, and is a clear invitation to retaliation and trade wars that can only damage our exporters, our shippers, our balance of payments, and our entire economy.

Particularly vulnerable are our agricultural exports, which last year accounted for $6.6 billion in sales and at least 700,000 American jobs. A third of our wheat, over a fifth of our feed grain, and over 40% of our soybeans are exported, principally to Japan and the Common Market countries. Sixty percent of our rice and 40% of our tobacco is dependent on foreign sales. A total of one out of four acres under cultivation, in fact, depends on exports.

But farm exports—particularly commodities such as wheat, feed grains, and soybeans—stand to suffer grave losses from the retaliation which will inevitably follow upon the enactment of a restrictive and protectionist trade bill. Common Market retaliation against soybeans alone, for example, can well cost American agriculture $200 million in lost sales, and nearly every other farm export will become vulnerable to nations seeking to protect their own agricultural production at the expense of the American farmer—the most productive in the world.

While we recognize the need to assist American industries, farmers, and workers who are unfairly damaged by foreign competition, we feel there are strong indications that H.R. 18970, as written, will actually decrease jobs and will do serious damage to the American farmer—not to mention the shipper, the manufacturer, and the consumer, all of whom have such a vital stake in the continued expansion of foreign trade.

There is an obvious need for new, comprehensive trade legislation which can form the basis for our—and the world's—trade policy in the decade of the 70's. The importance of this legislation is of such a magnitude—and the consequences of a short-sighted approach are so grave—that the Finance Committee and the full Senate must give hearings and extensive debate to whatever bill is finally sent to us by the House of Representatives. To allow precipitous action under the cover of a crowded Senate schedule and the enormous pressure for passage of social security or welfare legislation would be most unfortunate. Such an attempt, we believe, will jeopardize not only our trade policies and our economy, but the hoped-for adjournment date of October 15 and the successful passage of such vital legislation as social security and welfare.

We hope that the Finance Commitee will strongly oppose any such attempt, and will insist upon the careful, responsible legislative work which has brought from your Committee the milestone trade legislation under which we have operated over the past decade. We assure you of our support in resisting any abrogation of the Finance Committee jurisdiction, as well as our help in seeking to formulate a responsible, fair, and forward-looking trade bill to guide us in expanding our world trade over the years ahead.

Sincerely,

WALTER F. MONDALE,
QUENTIN N. BURDICK,
JOHN SHERMAN COOPER,
ALAN CRANSTON,
MARK O. HATFIELD,
HAROLD E. HUGHES,
DANIEL K. INOUYE,
JACOB K. JAVITS,
CHARLES McC. MATHIAS,
GEORGE McGOVERN,
LEE METCALF,
ROBERT W. PACKWOOD,
CHARLES H. PERCY,
RALPH T. SMITH,
STEPHEN M. YOUNG.

Mr. JAVITS. Mr. President, this was done in an effort to have a deliberate set of hearings with notice to all parties, giving them a chance to prepare and present their case to the Finance Committee. I respectfully submit that these 2 days of hearings were hastily called with the obvious intention of then coming to the floor and seeking to affix the trade bill to such a vital domestic bill as the social security bill and stating, as I am sure would have been stated, "They have had their hearings. What else will they complain about?" That is hardly what was contemplated by our letter or what is demanded by the seriousness and controversial nature of the proposed trade legislation.

It is for that reason that I objected on Friday and was joined in that objection by Senators Hatfield, Inouye, Mathias, McGovern, Mondale, Packwood, and Smith of Illinois.

Mr. President, I ask unanimous consent that that public statement which was issued in that connection may be printed in the Record.

(There being no objection, the statement was ordered to be printed in the Record, as follows:)

STATEMENT BY SENATOR JACOB K. JAVITS

The Decision of the Senate Finance Committee to hold only two days of hearings on the Trade Bill of 1970 with the implied forecast of tacking it on to the social security bill is most regrettable. A two-day hearing which will conclude on the close of business on Monday just before we adjourn for a month provides a totally inadequate period of time to consider this sweeping legislation that fundamentally changes the course of the trade policy of our nation and will have a profound effect on the peace and security of the world.

If the Trade Bill is to be tacked on to the social security bill let it be done at least frankly with no pretense of hearings.

The Trade Bill of 1970 is the most controversial piece of trade legislation considered by the Congress since the enactment of the Smoot-Hawley tariff in the 1930's. If passed, its effects on the American economy are likely to be sweeping and will make even more difficult the containment of the inflationary pressures that have ravaged the economy in recent years.

It will profoundly affect our relations with nations which have been our traditional friends, thereby weakening our positions in the world and concommitantly our national security. In a recent speech Ambassador Gilbert, the President's Special Representative for Trade Negotiations, pointed out that the shoe and textile provisions of the bill alone which could cause a reduction of $500 million in other countries, exports to the United States would make inevitable retaliation against U.S. exports and/or compensating duty changes adversely affecting other U.S. producers. The nature of the retaliatory threat could hardly be adequately aired in the brief hearings scheduled by the Finance Committee.

Representatives of the workers and the industry have brought to my attention wording in the mink quota provision that would adversely affect the livelihood of some 20,000 Americans. Will this be adequately aired? Also I have been informed that the quota provision on glycene protects only one firm in the United States to the detriment of all consumers using glycene. Will two days of hearings adequately outline the supply-demand-price relationships affecting glycene?

Is it wise to legislate quotas on oil when the North and Northeast are facing a serious fuel shortage and when an Assistant Secretary of State has just warned that the oil deficit of this nation would expand rapidly throughout the 1970's? Will the hearings before the Finance Committee properly air this controversial question?

Since the end of the war, international trade negotiations generally have been nondiscriminatory and multi-lateral. But the trade bill now before the Congress would turn back the clock to bilateral, discriminatory negotiations.

The working of the national interest provision in the bill would put a premium on the type of questionable lobbying practices both by foreign governments and domestic interests which came to characterize the granting of other quotas. The chances for abuse are enormous. Will this be adequately aired in two days of hearings before the Finance Committee?

Finally, if there is an attempt to attach the trade bill to the social security bill and to report them to the floor together, I would hope that the elderly citizens of this nation who have been most hurt by inflation will have a chance to make known their objections to this tactic whereby legislation essentially of special interest is tied to vital domestic legislation affecting the daily welfare of millions and millions of Americans.

It is for these reasons that I object to the Finance Committee's last-minute hearings on the Trade Bill of 1970. I have been joined in this protest of hastily called hearings by Senators Hatfield, Inouye, Mathias, McGovern, Mondale, Packwood and Smith (Ill.).

Mr. JAVITS. Mr. President, I also ask unanimous consent that a colloquy which took place in respect of the effect of holding a committee meeting over an objection on May 23, 1961, on the floor of the Senate by former Senator Kuchel—who was then deputy minority leader—Senators Mansfield, Morse, and others, may be printed at this point in the Record.

(There being no objection, the colloquy was ordered to be printed in the Record, as follows:)

COMMITTEE MEETINGS DURING SENATE SESSIONS

Mr. KUCHEL. Mr. President, I most respectfully invite the attention of Senators to a section from the Legislative Reorganization Act that reads as follows:

"No standing committee of the Senate or the House, except the Committee on Rules of the House, shall sit without special leave, while the Senate or the House, as the case may be, is in session."

In commenting on that part of the law of the land the volume "Senate Procedures" states as follows:

"No standing committee shall sit without special leave while the Senate is in session, which rule applies also to subcommittees of standing committees. Permission to sit while the Senate is in session includes all meetings, whether for hearings or the transaction of business."

Members of the minority, exercising their rights under the rules, in the past several days and weeks have interposed objections with the minority leader to the holding of committee meetings of the Senate while the Senate is in session. They were clearly within their rights in doing so, and the minority was clearly within its rights in objecting to any committee of the Senate holding hearings of any kind, with, of course, the single exception of the Committee on Appropriations. Such objection has been lodged from time to time on this side of the aisle.

The minority regrets to state that information has come to it which apparently indicates that some committees have purported to sit without right, and in violation of objections taken in accordance with the law of the Senate.

Mr. President, such an action by any committee is wrong. It is in violation of the law of this land, and it is against the rules of the Senate. The minority leader, and the acting minority leader, speaking for the minority leader, urge Senators scrupulously to follow the rules with respect to the meetings of committees during sessions of the Senate.

Mr. MANSFIELD. Mr. President, will the Senator yield?

Mr. KUCHEL. I yield to my able friend, the majority leader.

Mr. MANSFIELD. I am wholeheartedly in accord with what the distinguished acting minority leader has said. Last week on several occasions the minority leader, the able Senator from Illinois (Mr. Dirksen), raised objections to the sitting of committees during the session of the Senate, and stated that he would object to such procedure during the course of the consideration of the aid-to-education bill. In his objection I concur.

Frankly, I must admit that I do not know of any committees which have been meeting, but if any committees have been meeting, I wish they would heed the objection on the part of the minority leader and the acting minority leader, and also on the part of the majority leader, who concurs with the action of the Senators on the other side of the aisle, so I hope the joint endeavor will be sufficient.

Mr. KUCHEL. I thank my able friend, the distinguished majority leader, for the comments he has made. There should be no such thing as a subcommittee of a committee of the Senate sitting while the Senate is in session in the absence of complete Senate approval; and that statement goes for all purposes. That is the rule. That is the law. And they must be observed.

Mr. MORSE. Mr. President, will the Senator yield?

Mr. KUCHEL. I yield to the Senator from Oregon.

Mr. MORSE. May I have the attention of the majority leader and the acting minority leader, in order that I may give a small amount of free legal advice? I think the committee chairman of any full committee or subcommittee who might be conducting a hearing while the Senate is in session without the approval of the Senate ought to know that committee funds cannot be paid out for the services of an official reporter or, for that matter, for any services at all, and Senators who participated in such a hearing, if a test were made, would have to pay such expense out of their own pockets.

Mr. KUCHEL. The Senator is, of course, correct in the point he makes.

Mr. President, the illegality cuts across any function which might be performed by a committee or a subcommittee attempting to meet in the absence of the approval of the Senate.

I yield to my able friend, the Senator from Nebraska.

Mr. HRUSKA. If there is illegality in the holding of committee sessions under those circumstances, would not a motion lie to expunge from the records of the committee any testimony taken at such an illegal hearing; and should not such a motion or request be complied with?

Mr. KUCHEL. In my judgment the Senator from Nebraska is correct. Since, in the absence of approval, there is no authority whatsoever for such a meeting to be held, no one subsequently could contend that a meeting of that committee was held.

Mr. HRUSKA. When the Senator from Nebraska says "expunged" he means physically and literally taken out of the record, and permanently removed.

Mr. KUCHEL. Vitiated and extirpated.

Mr. JAVITS. Mr. President, I am not angry at anyone and I am sorry that there was some feeling that plans had been put in disarray by this objection. It was taken for a very specific reason.

I will not persist in it beyond today having made the point against the 2 days of hearings. If the committee chooses to go on with hearings, that is their privilege. I honor it. But I would feel that this point had been made very forcefully, considering the importance of the legislation and the vividness with which I saw the situation from the United Nations position, where I am now serving as designated by the Senate. We are considering there the second development decade. Trade is a critical element in the planning for the decade which seeks to better the lives of the billions of persons in the developing world. The launching of the decade itself is central to the decade, the 25th anniversary session of the United Nations General Assembly.

Mr. President, I have no parochial ideas about someone being taxed to pay for a transcript. I hope that will not be intruded into the consideration of a much broader question. I will help pay for the transcript myself, if the debate has to put it on that level. I think it is nonsense to put it on that level.

These hearings obviously will be used as a vehicle for contending there were hearings. The point is that a protest had to be made, and unhappily for me there seems to have been no one on the spot to make it except me.

I felt in conscience that I had to do it. So, for those reasons, I reiterate the objection, saying that, immediately after objecting, if the committee desires to continue its hearings from today on, I shall have no objection.

The ACTING PRESIDENT pro tempore. Objection is heard.

(October 14, 1970)

AUTHORIZATION TO PRINT HEARINGS OF THE COMMITTEE ON FINANCE

Mr. LONG. Mr. President, the Committee on Finance has been conducting hearings, and we also voted yesterday with regard to a trade amendment somewhat similar to that voted by the Ways and Means Committee of the House of Representatives, which will probably be acted upon in that body before it is acted upon in the Senate.

During the course of the hearings, objection was heard to a request that the committee be permitted to meet. On that occasion, we had in town a good number of witnesses, some of whom would have difficulty in arranging to be present at a later date, and we were working against a time limit. Therefore, the chairman of the committee felt it desirable simply to declare that the committee was no longer meeting officially as a committee but was meeting as an informal group of Senators for the purpose of taking testimony.

In other words, Mr. President, it would require consent of the Senate to print the testimony taken of the Secretary of State, the League of Women Voters, and the AFL–CIO which was taken during a period of time when objection was heard and the committee was meeting informally and not in position to meet officially as a committee.

I discussed this matter with Senators, and I believe it appropriate to request unanimous consent that the testimony of witnesses that occurred during that period may be printed as a part of the hearings on this measure and that the expenses of the reporter be paid.

The PRESIDING OFFICER. Without objection——

Mr. JAVITS. Mr. President, I reserve the right to object. The Senator was not quite through yet.

Mr. LONG. Mr. President, there are a number of ways in which this matter can be handled to make the information available to the Senate. For example, it is my privilege, and that of any other Senator, to stand on the floor and read what the Secretary of State, the League of Women Voters, and the AFL–CIO testified in the Record. It is also our right to pay the reporter and to have it printed, or we could put on a fund-raising dinner. I do not think we would have any difficulty. Or, we could sell copies and make a profit.

In any event, it seems to this Senator that the information should be made available. If there is objection to printing this matter, to make it available to the Senate, I will find some other way to make the information available to the Senate, but I need to know in what fashion I should proceed.

The PRESIDING OFFICER. Is there objection?

Mr. JAVITS. Reserving the right to object, Mr. President, I am the one who objected to the sessions. I objected because I believed that 2 days of hearings on so portentous a bill was hardly a hearing. I made that point with the aid of other Senators, whose help I most gratefully acknowledge, on both sides of the aisle. I had no desire, and I have no desire, to have any smallness about this. Of course, we are not going to make the chairman of the Finance Committee go through the gyration of inserting in the Record whatever he wishes, as he could, or anything like that, or having him pay a reporter.

What I do ask, however, is that the unanimous-consent request may be modified so that it will show, in connection with the printing of these particular statements and questions and answers, that they be printed separately. This will show that they were the result of informal presentations to certain members of the committee and were not testimony of witnesses, as is perhaps other documentation which will be produced in respect of whatever bill is reported by the committee. But as to the mechanics of actually presenting it to us in a printed way, in a convenient form, and as to the cost of printing or the cost of reporters, I have no objection whatever. If the Senator will mod-

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ify his request accordingly, so far as I am concerned, I am content.

Mr. LONG. Mr. President, with regard to the Senator's suggestion, the record I propose to print would so show that—in fact it clearly shows that objection is heard and if need be I will pay the reporter and we will meet informally and I will take this testimony. I will be glad to have the Record show that the Senate went out of session about 2:30 that afternoon and that at that point we were not meeting at a time when the Senate was in session.

Mr. JAVITS. That is correct. I think it was 4 o'clock, but it does not matter.

Mr. LONG. One day it was 2:30 and another day it was about 4.

The PRESIDING OFFICER. Is there objection to the modified request?

Mr. FULBRIGHT. Mr. President, reserving the right to object—I shall not object—I raise this simply because this type of thing has occurred to the Committee on Foreign Relations. Objection was made, and we did not hold the hearing.

I think that in the interest of conformity and of understanding by various chairmen, perhaps the Rules Committee should give some attention to this matter. I think the Senator has a point about the witnesses, and we have had the same situation in the Foreign Relations Committee. I do not think one committee should act one way and another committee should act another way.

I only raise this question as a matter of interest. I think that this type of matter should receive further attention by the Rules Committee and the leadership, so that we all will know what the proper procedure is under these circumstances.

Mr. HANSEN. Mr. President, who has the floor?

The PRESIDING OFFICER. The Senator from New York has the floor.

Mr. JAVITS. Mr. President, I ask unanimous consent that I may yield to the Senator from Wyoming, with the time not to be charged to me.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. HANSEN. I should like to ask the Senator from New York whether my understanding of his stipulation is correct in connection with the testimony and the responses to questions that were raised by members of the committee who were then sitting informally, as was declared by the distinguished chairman of our committee. Would this stipulation result in everything that was said, all the responses that were made that afternoon, taking on a character different from that which would be the case if we could have been in formal session? I am not quite clear as to the purpose of the distinguished Senator from New York in saying that this testimony and the statements and the responses to questions should not be considered as—I have forgotten precisely the words.

Mr. JAVITS. Should not be considered as witnesses or testimony, but should be considered as an informal presentation to certain members of the Finance Committee by certain people whom the committee had intended to call as witnesses in those sessions.

My only reason for my reservation and the request I have made of Senator Long is to keep good the good faith of my objection.

The Senator knows that the Senate could pass anything without hearings, if it chose. We are not in a court, where the matter is going to go up on appeal and then the appelate court will weigh what was not objected to in the record and what was objected to. In order to keep the good faith of my objection, I have made these statements.

Mr. LONG. Mr. President, I should like to get this matter straight with the Senator from New York.

It is fine with me for the record to show at what point objection was made and that the committee was aware of it and at what point the Senate went out of session.

I do not think it wise or desirable to print it as a separate document, because that means we will have to leave out the part at which Mr. Gilbert, the Special Trade Representative of the President, was answering the question of the Senator, and we will have to have a separate document which will end at an abrupt point. We would then transfer back to the hearing.

Mr. JAVITS. May I suggest that the Senator have printed as a supplement what was done in the objected-to time and put it in the same binding. Make it a supplement and put it in the same binding. Show what committee members were present, because it was informal and it was not testimony before the committee.

I just want to show what happened factually, to maintain the good faith fo my objection.

Mr. BYRD of West Virginia. Mr. President, will the Senator yield?

Mr. JAVITS. I yield, with the understanding that the time will not be charged to me.

Mr. BYRD of West Virginia. Mr. President, I ask unanimous consent that the unfinished business not be laid before the Senate at the close of the morning hour, at 11 o'clock this morning; that the Senator from New York retain the floor until he is finished; and that the period for the transaction of routine morning business not exceed 1 hour.

The PRESIDING OFFICER. Is there objection? The Chair hears none, and it is so ordered.

Mr. LONG. Well, Mr. President, I say to the Senator that if he wants to insist that this matter be printed as a separate document——

Mr. JAVITS. I do not.

Mr. LONG. So that there will be two documents, one in which the testimony would not appear in consecutive order, to which there would be no objection, but it would be better, I think, that the testimony appear consecutively in the record.

Mr. JAVITS. But at the head of that particular section it will show what happened. That is all I insist upon.

Mr. LONG. Fine.

The PRESIDING OFFICER. Is there objection? The Chair hears none, and it is so ordered.

APPENDIX B

Foreign Import Restrictions on Wool Man-Made Fiber Textiles
(Submitted by the Department of Commerce)

AUSTRIA/WOOL

AUSTRIA

Austro-Japanese trade agreement of November 1966 established a list of non-liberalized items which are subject to import licensing and global quotas. Certain wool yarn, fabric and apparel items are included on the non-liberalized list.

Austria has trade agreements with Albania, Bulgaria, Czechoslovakia, Democratic Republic of Vietnam, Democratic Republic of Germany, Hungary, Poland, Romania, Peoples Republic of Mongolia, Peoples Republic of Korea, Peoples Republic of China, USSR. Separate ceilings for wool products are not available.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Austria	Japan	Austro-Japanese trade agreement of November 4, 1966, extended through December 31, 1969, established a list of non-liberalized items which are subject to import licensing and global quotas. The wool textile items on the non-liberalized list are given below; specific ceilings are not in force.

Item	Tariff No.
Worsted yarn of sheep wool, not made up for retail sale	53.07
Yarn of sheep wool, of other fine or coarse animal hair or horse hair, made up for retail sale	53.10
Woven fabrics of sheep wool or fine animal hair	53.11
Woven ribbons and ribbons without weft made from yarns or fibers laid parallel and glued together other than goods falling under tariff number 58.06 (woven labels, badges and the like); all made from textile materials other than cotton	ex 58.05
Woven fabrics coated with an adhesive or starch-containing agent for book covers, cases and sheaths, and similar bookbinding and box-making purposes; all from textile materials other than cotton	ex 59.07
Woven fabrics coated or impregnated with preparations of cellulose derivates or other plastics	59.08
Other fabrics, impregnated or coated; painted fabrics for theatrical decorations; studio backdrop and the like; with the exception of fine woven fabrics coated with a preparation based on natural resins or camphor; all made from textile materials other than cotton	ex 59.12
Elastic woven fabrics of other textile materials than cotton, combined with rubber threads, with a width of less than 30 centimeters	ex 59.13
Knitted fabrics by the yard, not rubber-elastic, not rubberized, made from other textile materials than cotton	ex 60.01

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IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION: Item	RESTRICTION: Tariff No.
Austria	Japan	Knitted gloves and mittens, not rubber-elastic, not rubberized; made from other textile materials than cotton	ex 60.02
		Knitted stockings, under-stockings, socks, and the like, not rubber-elastic, not rubberized, made from other textile materials than cotton	ex 60.03
		Knitted (tricot) under garments, not rubber-elastic, not rubberized, made from textile materials other than cotton	ex 60.04
		Knitted (tricot, jersey) outer garments and garment accessories, not rubber-elastic, not rubberized, made from textile materials other than cotton	ex 60.05
		Rubber-elastic or rubberized knitted fabrics by the yard, and goods made thereof (including elastic knee-caps and elastic stockings) made from textile materials other than cotton	ex 60.06
		Garments and garment accessories made from textile materials other than cotton, excluding handkerchiefs (tariff number 61.05); mufflers and mantillas (ex 61.06); tuckers, fallals, bodice fronts, jabots, cuffs, flounces, yokes and similar accessories and trimmings for women's and girls' garments (ex 61.08); gloves, mittens, stockings and socks, not knitted (61.10)	ex 61
		Other made-up textile products made from textile materials other than cotton, excluding travelling rugs and blankets other than made from wool and fine animal hair (ex 62.01), and other made up articles including dress patterns (62.05)	ex 62

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Austria	Czechoslovakia	Under Article XXXV[1] of the GATT, Austria maintains restrictions on imports of certain wool products from Czechoslovakia. Given below are the liberalized items as of January 1, 1970. Licenses for non-liberalized textile/apparel products of all fibers are issued within an annual quota of $600,000.

Item	Tariff No.
Sheep's or lambs' wool, not carded or combed	53.01
Animal hair (fine or coarse) not carded or combed	53.02A, ex B
Waste of sheep's or lambs' wool or other animal hair (fine or coarse) not pulled or garnetted	53.03A 53.03B2B
Sheep's or lambs' wool or other animal hair (fine or coarse) carded or combed	53.05
Yarn of animal hair (carded or combed), not put up for retail sale	53.08, 53.09
Yarn of sheep's or lambs' wool, of horsehair or of other animal hair (fine or coarse), put up for retail sale	ex 53.10
Shawls, scarves, mufflers, mantillas, veils, etc. except of cotton	ex 61.06
Collars, flounces and similar accessories/trimmings for women's and girls' apparel, except of cotton	ex 61.08
Stockings and socks, not knitted, of materials other than cotton	ex 61.10
Dress patterns of textile materials other than cotton	ex 62.05A
Garments and accessories of textile materials, used, loose, in bundles or in bags	ex 63.01
Other headgear, whether or not lined or trimmed	ex 65.03B

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
	Poland	Austria maintains general excepts from GATT liberalizations on the basis of Article XXXV against imports of certain wool products from Poland. Liberalized items are same as for Czechoslovakia. 1970 annual quota for non-liberalized textile/apparel commodities is included in $2 million for consumer goods of all kinds.

1/ Some countries continue legally to justify quantitative import restrictions directed at specific important textile exporting countries under GATT Article XXXV, which permits a GATT member to withhold the application of its tariff concessions or the provisions of the entire Agreement from another GATT member with whom it has not negotiated tariff concessions. This article was invoked by many European countries when Japan joined the GATT. Many of these countries have now disinvoked Article XXXV but rely on bilateral agreements or special valuation or other devices to protect domestic producers.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Austria	Romania	Austro-Romanian trade agreement effective January 1966 to December 1970. The list of liberalized wool textile products imported from Romania is identical with the list for Czechoslavakia. Import licenses for non-liberalized textile and apparel commodities are issued within an annual quota of $350,000 for various textile products and $25,000 for apparel. 1/
	U.S.S.R.	Austro-Russian trade agreement effective 1966-1970. Agreement contains a provision for Austrian imports of "consumer goods such as carpets in exchange for Austrian consumer goods." Specific ceilings are not in force.
	Hungary	Austro-Hungarian trade agreement for the period January 1, 1968 - December 31, 1972, includes the same commodity list as applied to products originating from Poland and Czechoslovakia although Hungary is not a GATT member. The following quotas apply for CY 1970. Item — Quota in U.S. Dollars Textile piece goods, knitwear, made-ups — 700,000. Apparel — 250,000
	Peoples Republic of China	Austro-Chinese trade agreement concluded in 1964 for the period up to June 1966. Automatically extended each year. The agreement fixes no quotas and only lists those commodities agreed to be "essential" products of exchange. The Austrian import list includes "various textile products, including base material for embroideries, silk and textiles of national character" as well as "cashmere wool and camel hair."

1/ Imports beyond fixed quota may be considered.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Austria	Democratic Republic of Germany	Austro-German trade agreement concluded July 1968, effective through December 31, 1970 provides annual quotas on Austrian imports of the following textile products: Item — Quota in U.S. Dollars Woven piece goods of all kinds — 300,000 Carpets — 270,000 Home furnishing textiles, except carpets — 190,000 Knit goods — 130,000 Technical knit goods — 210,000 Miscellaneous textile products — 250,000
	Peoples Republic of Mongolia	Austro-Mongolian trade agreement for the period July 15, 1963 to July 14, 1964. Automatically extended each year. The agreement fixes no quotas and only lists those commodities agreed to be the "essential" products of exchange. The Austrian import list includes "spinning materials and goods thereof, including wool (cashmere and sheep) and carpets."
	Peoples Democratic Republic of Korea	Austro-Korean trade agreement concluded in 1960; latest amendment negotiated in 1966, automatically extended by another year in December 1967. The list of Korean export items includes "unspecified textile products of national character and animal hair;" however, specific ceilings are not in force.
	Democratic Republic of Vietnam	Austro-Vietnamese trade agreement concluded in 1963. Automatically extended each year. The Austrian import list includes "spinning materials and goods made thereof, including hand-made carpets of wool, as well as embroideries." Specific ceilings are not in force.
	United Arab Republic	Austro-Egyptian trade agreement of June 1, 1960, renewed periodically. "Wool carpets" is only wool product on the commodity import list; a specific ceiling is not in force.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Austria	Bulgaria	Austro-Bulgarian trade agreement concluded May 1968, effective through December 31, 1972. The list of liberalized textile products imported from Bulgaria is identical with the list for Czechoslovakia, Hungary and Poland <u>except</u> for the following items which remain on the non-liberalized list:

Item	Tariff No.
Stockings and socks, not knitted, of materials other than cotton	ex 61.10
Dress patterns of textile materials other than cotton	ex 62.05A
Garments and accessories of textile materials, used, loose, in bundles or in bags	ex 63.01

The list of non-liberalized commodities provides the following ceilings on Austrian imports of textiles from Bulgaria:

Item	Quota in U.S. Dollars
Hand-made carpets	500,000 1/
Miscellaneous textiles and apparel	330,000 1/

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
	Iran	All imports subject to licensing.
	Morocco	Austro-Moroccan trade agreement of October 20, 1964, remains current. "Hand-made blankets and wall covers of wool" are only wool products on the commodity import list; specific ceilings are not in force.
	Albania	Austro-Albanian trade protocol concluded in 1961. Commodity lists for 1968 negotiated in January 1968 provide for the following ceilings on Austrian imports of Albanian textile/apparel items:

Item	Quota in U.S. Dollars
Kelims and hand-made carpets	50,000
Miscellaneous products which may include textiles	100,000

1/ Imports beyond fixed quota may be considered.

AUSTRIA/MAN-MADES

AUSTRIA

Austro-Japanese trade agreement of November 1966 established a list of non-liberalized items which are subject to import licensing and global quotas. Certain man-made fiber, fabric and apparel items are included on the non-liberalized list.

Austria has trade agreements with Albania, Bulgaria, Czechoslovakia, Democratic Republic of Vietnam, Democratic Republic of Germany, Hungary, Poland, Romania, Peoples Republic of Mongolia, Peoples Republic of Korea, Peoples Republic of China, USSR. Separate ceilings for man-made products are not available.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Austria	Japan	Austro-Japanese trade agreement of November 4, 1966, extended through December 31, 1969, established a list of non-liberalized items which are subject to import licensing and global quotas. The man-made fiber textile items on the non-liberalized list are given below; specific ceilings are not in force.

Item	Tariff No.
Yarn of continuous man-made fiber of natural polymers, not made up for retail sale	51.01 B
Woven fabrics of continuous fiber of natural or synthetic polymers including woven fabrics of monofils, strips, or similar shapes of materials listed under tariff number 51.01 and 51.02	51.04
Discontinuous viscose textile fibers (rayon staple fiber), not carded, not combed	ex 56.01 B 1
Continuous filament tow of natural polymers for the production of discontinuous fiber (rayon staple fiber)	ex 56.02 B
Rayon staple fiber waste, not carded, not combed, including waste yarn and reclaimed fibers	ex 56.03 B
Discontinuous viscose fiber (rayon staple fiber) and waste, carded, combed or otherwise prepared for spinning	ex 56.04 B
Yarn of discontinuous fiber of natural or synthetic polymers or of waste thereof, not made up for retail sale	56.05
Woven fabrics of discontinuous fibers of natural or synthetic polymers	56.07
Woven ribbons and ribbons without weft made from yarns or fibers laid parallel and gluded together other than goods falling under tariff number 58.06 (woven labels, badges and the like); all made from textile materials other than cotton	ex 58.05

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION: Item	RESTRICTION: Tariff No.
Austria	Japan	Woven fabrics coated with an adhesive or starch-containing agent for book covers, cases and sheaths, and similar bookbinding and box-making purposes; all from textile materials other than cotton	ex 59.07
		Woven fabrics coated or impregnated with preparations of cellulose derivates or other plastics	59.08
		Other fabrics, impregnated or coated; painted fabrics for theatrical decorations, studio backdrop and the like; with the exception of fine woven fabrics coated with a preparation based on natural resins or camphor; all made from textile materials other than cotton	ex 59.12
		Elastic woven fabrics of other textile materials that cotton, combined with rubber threads, with a width of less than 30 centimeters	ex 59.13
		Knitted fabrics by the yard, not rubber-elastic, not rubberized, made from other textile materials than cotton	ex 60.01
		Knitted gloves and mittens, not rubber-elastic, not rubberized; made from other textile materials than cotton	ex 60.02
		Knitted stockings, under-stockings, socks, and the like, not rubber-elastic, not rubberized, made from other textile materials than cotton	ex 60.03
		Knitted (tricot) under garments, not rubber-elastic, not rubberized, made from textile materials other than cotton	ex 60.04

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION	
		Item	Tariff No.
Austria	Japan	Knitted (tricot, jersey) outer garments and garment accessories, not rubber-elastic, not rubberized, made from textile materials other than cotton	ex 60.05
		Rubber-elastic or rubberized knitted fabrics by the yard, and goods made thereof (including elastic knee-caps and elastic stockings) made from textile materials other than cotton	ex 60.06
		Garments and garment accessories made from textile materials other than cotton, excluding handkerchiefs (tariff number 61.05); mufflers and mantillas (ex 61.06); tuckers, fallals, bodice fronts, jabots, cuffs, flounces, yokes and similar accessories and trimmings for women's and girls' garments (ex 61.08); gloves, mittens, stockings and socks, not knitted (61.10)	ex 61
		Other made-up textile products made from textile materials other than cotton, excluding travelling rugs and blankets other than made from wool and fine animal hair (ex 62.01), and other made up articles including dress patterns (62.05)	ex 62

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Austria	Czechoslovakia	Under Article XXXV[1/] of the GATT, Austria maintains restrictions on imports of certain man-made fiber products from Czechoslovakia. Given below are the liberalized items. Licenses for non-liberalized textile/apparel products of all fibers are issued within an annual quota of $600,000.

Item	Tariff No.
Yarn of continuous synthetic man-made fibers	51.01A
Monofilament, strip (artificial straw, etc.) and imitation catgut, of man-made fiber materials	ex 51.02
Discontinuous non-cellulosic textile fibers, not processed	56.01A
Discontinuous cellulosic textile fibers, not processed	ex 56.01B1 56.01B2
Continuous filament tow of man-made fibers	56.02A, ex B
Waste (including yarn waste and pulled or garnetted rags) of man-made fibers, except viscose rayon, not processed	56.03A ex 56.03B
Man-made fibers, except viscose rayon (discontinuous or waste), carded, combed or otherwise prepared for spinning	56.04A ex 56.04B
Textile fabrics, coated or impregnated with oil or preparations with a basis of drying oil	59.09A
Shawls, scarves, mufflers, mantillas, veils, etc.	ex 61.06
Collars, flounces and similar accessories/trimmings for women's and girls' apparel, except of cotton	ex. 61.08
Stockings and socks, not knitted, of materials other than cotton	ex. 61.10
Dress patterns of textile materials other than cotton	ex 62.05
Garments and accessories of textile materials, used, loose, in bundles or in bags	ex 63.01
Other headgear, whether or not lined or trimmed	ex 65.06B

1/ Some countries continue legally to justify quantitative import restrictions directed at specific important textile exporting countries under GATT Article XXXV, which permits a GATT member to withhold the application of its tariff concessions or the provisions of the entire Agreement from another GATT member with whom it has not negotiated tariff concessions. This article was invoked by many European countries when Japan joined the GATT. Many of these countries have now disinvoked Article XXXV but rely on bilateral agreements or special valuation or other devices to protect domestic producers.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Austria	Poland	Austria maintains general exceptions from GATT liberalizations on the basis of Article XXXV against imports of certain man-made fiber products from Poland. Liberalized items are same as for Czechoslovakia. 1970 annual quota for non-liberalized textile/apparel commodities is included in $2 million for consumer goods of all kinds.
	Hungary	Austro-Hungarian trade agreement for the period January 1, 1968 - December 31, 1972, includes the same commodity list as applied to products originating from Poland and Czechoslovakia although Hungary is not a GATT member. The following quotas apply for CY 1970.
	Peoples Republic of China	Austro-Chinese trade agreement concluded in 1964 for the period up to June 1966. Automatically extended each year. The agreement fixes no quotas and only lists those commodities agreed to be "essential" products of exchange. The Austrian import list includes "various textile products, including base material for embroideries, silk and textiles of national character"

Item	Quota in U. S. Dollars
Textile piece goods, knitwear, made-ups	700,000
Apparel	250,000

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IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Austria	Democratic Republic of Germany	Austro-German trade agreement concluded July 1968, effective through December 31, 1970 provides annual quotas on Austrian imports of the following textile products:

Item	Quota in U.S. Dollars
Woven piece goods of all kinds	300,000
Carpets	270,000
Home furnishing textiles, except carpets	190,000
Knit goods	180,000
Technical knit goods	210,000
Miscellaneous textile products	250,000

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
	Peoples Republic of Mongolia	Austro-Mongolian trade agreement for the period July 15, 1963 to July 14, 1964. Automatically extended each year. The agreement fixes no quotas and only lists those commodities agreed to be the "essential" products of exchange. The Austrian import list includes "spinning materials and goods thereof, including carpets."
	Peoples Democratic Republic of Korea	Austro-Korean trade agreement concluded in 1960; latest amendment negotiated in 1966, automatically extended by another year in December 1967. The list of Korean export items includes "unspecified textile products of national character; however, specific ceilings are not in force."
	Democratic Republic of Vietnam	Austro-Vietnamese trade agreement concluded in 1963. Automatically extended each year. The Austrian import list includes "spinning materials and goods made thereof, including embroideries." Specific ceilings are not in force.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Austria	Bulgaria	Austro-Bulgarian trade agreement concluded May 1968, effective through December 31, 1972. The li of liberalized textile products imported from Bulgaria is identical with the list for Czechoslovakia, Hungary and Poland <u>except</u> for the following items which remain on the non-liberalized list:
	Iran	All imports subject to licensing.
	Albania	Austro-Albanian trade protocol concluded in 1961. Commodity lists for 1968 negotiated in January 196 provide for the following ceilings on Austrian imports of Albanian textile/apparel items:

Austria – Bulgaria, non-liberalized items:

Item	Tariff No.
Stockings and socks, not knitted, of materials other than cotton	ex 61.10
Dress patterns of textile materials other than cotton	ex 62.05A
Garments and accessories of textile materials, used, loose, in bundles or in bags	ex 63.01

The list of non-liberalized commodities provides the following ceilings on Austrian imports of textiles from Bulgaria:

Item	Quota in U.S. Dollars
Hand-made carpets	500,000 1/
Miscellaneous textiles and apparel	330,000 1/

Austria – Albania:

Item	Quota in U.S. Dollars
Kelims and hand-made carpets	50,000
Miscellaneous products which may include textiles	100,000

1/ Imports beyond fixed quota may be considered.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Austria	Romania	Austro-Romanian trade agreement effective January 1966 to December 1970. The list of liberalized textile products imported from Romania is identical with the list for Czechoslavakia. Import licenses for non-liberalized textile and apparel commodities are issued within an annual quota of $350,000 for various textile products and $25,000 for apparel. 1/
	USSR	Austro-Russian trade agreement effective 1966-1970. Agreement contains a provision for Austrian imports of "consumer goods such as carpets in exchange for Austrian consumer goods." Specific ceilings are not in force.

1/ Imports beyond fixed quota may be considered.

BENELUX/WOOL

BENELUX

A. Benelux-Japanese Bilateral Agreement: The three Benelux countries share a common bilateral agreement with Japan which expired April 30, 1969. Pursuant to this agreement, all imports from Japan are subject to licensing, and a market disruption clause provides for immediate consultations should any industry (including the textile industry) be actually or potentially injured.

The bilateral agreement also contains provision for ceilings on Benelux imports of certain wool narrow fabrics and apparel, and certain man-made fiber yarns, fabrics and apparel.

B. Benelux-Eastern European Trade Agreements: The Benelux countries share common commercial agreements with Hungary, Poland, Romania and Czechoslovakia which contain provisions for ceilings on the importation of certain wool and man-made fiber fabrics and apparel from these Eastern European nations.

C. Netherlands-Democratic Republic of Germany Commercial Agreement: A commercial agreement of 1966 between the Netherlands Chamber of Commerce for East Germany and the Foreign Trade Chamber of East Germany, still in effect, is a "private" rather than intergovernmental agreement and provides ceilings on Dutch imports of certain wool and man-made fiber fabrics, knit goods, carpets and apparel from East Germany.

D. Belgo-Luxembourg Economic Union (BLEU) - Democratic Republic of Germany Trade Agreement: A trade agreement of 1966 between the Belgian Economic Office and the East German Chambers of Commerce, still in effect, is a "private" rather than intergovernmental agreement and provides ceilings on BLEU imports of certain wool and man-made fiber fabrics, made-up goods, knit goods, carpets and apparel from East Germany.

E. As of June 1967 the EEC Commission authorized the Dutch to restrict imports of carded wool fabrics from EEC parties and third countries pursuant to Article 226 of the Treaty of Rome. The quota based on shipments in 1966 was aimed primarily at Italy whose 1966 exports of this item to the Netherlands were $14 million.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Benelux	Hungary	The Benelux-Hungarian commercial agreement contains a provision for annual ceilings on the importation of certain products from Hungary. Agreement valid January 1, 1967-December 31, 1969. CY '68 quotas below. **Item** — **Quota** Certain knit socks for men of cellulosic fiber or wool — p. m. 1/ Wool cloth, pure and mixed with discontinuous man-made fibers — $100,000 Undergarments, wholly or partially of man-made fibers — $180,000
	Poland	The Benelux-Polish commercial agreement contains a provision for ceilings on the importation of certain products from Poland. Agreement valid January 1, 1967-December 31, 1969. **Item** — **Quota in U.S. Dollars** Wool cloth, pure or mixed — 20,000 Various textile products, fiber not specified — 20,000
	Romania	Benelux-Romanian trade agreement renewed November 21, 1969, for a period of five years beginning January 1, 1970, includes the following ceilings on Benelux imports of certain wool products from Romania. **Item** — **Quota** Wool fabric, man-made fiber fabric containing at least 85% by weight of man-made fibers mixed principally or only with wool or other fine animal hair — $22,000 Men's heavy knitted hosiery of wool or cellulosic fibers — 4,000 dozen pairs

1/ The initials p. m. (pro memoria) signify that, although no quota is set, the agreement envisions trade in the item with each transaction subject to individual approval.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Benelux	Japan	Benelux-Japanese bilateral agreement in effect until April 30, 1969, contains provision for ceilings on Benelux imports of certain wool products from Japan into the Benelux countries. 1967 quotas given below remain in force. Item — Quota in Metric Tons Ribbon, lace, braid and trimming, not silk — 30 Outer garments and other articles, knitted or crocheted, of wool or wool mixtures — 85 In addition, all other imports from Japan are subject to licensing. A market disruption clause provides for immediate consultations should any industry (including the textile industry) be actually or potentially injured. If no agreement can be reached within a reasonable time, the Benelux countries may impose quantitative restrictions as deemed appropriate. This clause, however, has never been invoked, and licensing requirements have evidently not been used restrictively.
	EEC Italy	As of June 1967 the Commission of the EEC authorized the Dutch to restrict imports of carded wool fabrics from EEC partners and third countries pursuant to Article 226 of the Treaty of Rome. The quota based on shipments in 1966 was aimed primarily at Italy whose 1966 exports of this item to the Netherlands were $14,075,172.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Benelux	Czechoslovakia	Benelux-Czechoslovak trade agreement contains a provision for the following ceilings on Benelux imports of textile/apparel products from Czechoslovakia.

Item	Quota in U.S. Dollars
Printed fabrics of continuous man-made fibers, excluding crepes Other fabrics, containing at least 85% by weight of cotton, printed Printed fabrics of discontinuous man-made fibers other than mixtures solely or in major part of wool or fine animal hair, excluding crepes	69,000
Continuous man-made fiber fabrics, excluding: Unbleached and printed fabrics, crepes, and fabrics for tires Other fabrics, containing at least 85% by weight of cotton, excluding: Unbleached and non-mercerized fabrics and printed fabrics Discontinuous man-made fiber fabrics other than mixtures solely or in major part of wool or fine animal hair, excluding: Unbleached and printed fabrics and crepes	200,000
Woven fabrics of wool or fine animal hair, excluding fabrics for travelling rugs and blankets not referred to in item 62.01 Discontinuous man-made fiber fabrics containing less than 85% by weight man-made fibers, mixed solely or in major part with wool or fine animal hair, excluding unbleached fabrics Woven pile fabrics, and chenille fabrics (other than fabrics falling within headings Nos. 55.08 and 55.05) of wool, or of fine or coarse animal hair	55,200
Men's and boys' undergarments, including collars, shirtfronts and cuffs of man-made fiber fabrics, and other textile fabrics excluding silk, yarn spun from silk waste, yarn spun from noil. silk, wool, or fine animal hair) Women's, girls', and infants' undergarments	27,600

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
The Netherlands	Democratic Republic of Germany	Commercial agreement of 1966 between the Netherlands Chamber of Commerce for East Germany and the Foreign Trade Chamber of East Germany remains in force. Although this is a "private" rather than intergovernmental agreement, the following ceilings apply to Dutch imports of textile/apparel products from East Germany:

Item	Partial value	Total value
Textiles		$2,208,000
including the following:		
Print fabrics:	$113,160	
including the following:		
Print fabrics of continuous man-made fibers except crepe fabrics; Other print fabrics containing 85% or more cotton by weight Print goods of man-made fibers except: fabrics mixed chiefly or entirely with wool or fine animal hair, and crepe fabrics	$ 51,060	
Other print fabrics	$ 62,100	
Unprinted fabrics	$289,800	
including the following:		
Fabrics of continuous man-made fibers, except print fabrics, unfinished fabrics, crepe fabrics and fabrics for manufacture of tires Other fabrics containing 85% or more cotton by weight, except print fabrics and unbleached, non-mercerized fabrics; Fabrics of man-made fiber yarn, except fabrics mixed chiefly or entirely with wool or fine animal hair; print fabrics, unfinished fabrics and crepe fabrics	$220,800	

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION: Item	Partial value	Total value
The Netherlands	Democratic Republic of Germany	Fabrics of wool or fine animal hair, except fabrics for woolen blankets; fabrics of man-made fiber yarn, mixed chiefly or entirely with wool, except unfinished fabrics; velvet, plush, pile fabrics and chenille fabrics of wool	$ 69,000	
		Wool gloves	$ 5,520	
		Rugs including: Floor coverings, hanging carpets, and table spreads	$552,000	
		Tulle and netting (filet), rayon fabrics, cottons, cotton lace and punchwork, incl. burnt-out lace	$317,400	
		Miscellaneous notions, ribbons and piping	$ 96,600	
		including: Crocheted men's half-hose with knit-on selvedge edge not having inserted pattern, weighing 80 to 120 g, of man-made fiber yarns or wool	p.m. 1/	
		Knit goods	p.m.	
		Ready-to wear apparel	p.m.	

1/ The initials p.m. (pro memoria) signify that, although no quota is set, the agreement envisions trade in the item with each transaction subject to individual approval.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Belgo-Luxembourg Economic Union (BLEU)	Democratic Republic of Germany	Trade agreement of 1966 between the Belgian Economic Office and the East German Chambers of Commerce remains in force. Although this is a "private" rather than intergovernmental agreement, the following ceilings apply to BLEU imports of textile/apparel products from East Germany.

Item	Quota in U.S. Dollars
Various fabrics	120,000
Including the following:	
Printed fabrics, fiber not specified	20,000
Fabrics, other than printed or unbleached, fiber not specified	40,000
Woven fabrics of wool, pure or mixed	30,000
Unbleached fabrics, fiber not specified	20,000
Made-up articles, including terrycloth and shirts	20,000
Travelling rugs and blankets, felt, and the like	20,000
Knitted and crocheted goods, corsets, and undergarments	320,000
Including the following:	
Undergarments and outergarments, including training clothes, fiber not specified	50,000
Socks of man-made fibers or of wool	14,000
Other stockings and socks	100,000
Undergarments, fiber not specified	74,000
Carpets, fiber not specified	100,000
Tulle, lace, net, trimmings, and the like, fiber not specified	60,000

BENELUX/MAN- MADES

BENELUX

A. Benelux-Japanese Bilateral Agreement: The three Benelux countries share a common bilateral agreement with Japan which expired April 30, 1969. Pursuant to this agreement, all imports from Japan are subject to licensing, and a market disruption clause provides for immediate consultations should any industry (including the textile industry) be actually or potentially injured.

The bilateral agreement also contains provision for ceilings on Benelux imports of certain wool narrow fabrics and apparel, and certain man-made fiber yarns, fabrics and apparel.

B. Benelux-Eastern European Trade Agreements: The Benelux countries share common commercial agreements with Hungary, Poland, Romania and Czechoslovakia which contain provisions for ceilings on the importation of certain wool and man-made fiber fabrics and apparel from these Eastern European nations.

C. Netherlands-Democratic Republic of Germany Commercial Agreement: A commercial agreement of 1966 between the Netherlands Chamber of Commerce for East Germany and the Foreign Trade Chamber of East Germany, still in effect, is a "private" rather than intergovernmental agreement and provides ceilings on Dutch imports of certain wool and man-made fiber fabrics, knit goods, carpets and apparel from East Germany.

D. Belgo-Luxembourg Economic Union (BLEU) - Democratic Republic of Germany Trade Agreement: A trade agreement of 1966 between the Belgian Economic Office and the East German Chambers of Commerce, still in effect, is a "private" rather than intergovernmental agreement and provides ceilings on BLEU imports of certain wool and man-made fiber fabrics, made-up goods, knit goods, carpets and apparel from East Germany.

E. As of June 1967 the EEC Commission authorized the Dutch to restrict imports of carded wool fabrics from EEC parties and third countries pursuant to Article 226 of the Treaty of Rome. The quota based on shipments in 1966 was aimed primarily at Italy whose 1966 exports of this item to the Netherlands were $14 million.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION	
Benelux	Hungary	The Benelux-Hungarian commercial agreement contains a provision for ceilings on the importation of certain products from Hungary. Agreement valid January 1, 1967-December 31, 1969. CY '68 quotas below.	
		Item	**Quota**
		Printed fabric of continuous man-made fibers (excluding crepe), printed fabric containing at least 85% by weight of cotton, printed fabric of discontinuous man-made fibers (other than those mixed principally or only with wool)	$100,000
		Fabric of continuous man-made fibers (excluding unbleached and printed fabric and crepe), fabric containing at least 85% by weight of cotton (excluding unbleached, non-mercerized fabric and crepe), fabric of discontinuous man-made fibers (other than those mixed principally or only with wool)	$ 40,000
		Certain knit socks for men of cellulosic fiber or wool	p. m. 1/
		Wool fabric, pure or blended with man-made discontinuous fibers	$100,000
		Undergarments, wholly or partially of man-made fibers	$100,000
		Gloves, mittens and similar woven items of non-cellulosic fibers other than women's hosiery	12,000 dozen pairs
		Women's stockings and other hosiery containing non-cellulosic fibers	6,000 dozen pairs
		Gloves, mittens and similar knit items of man-made fibers	8,500 dozen pairs
	Poland	The Benelux-Polish commercial agreement contains a provision for ceilings on the importation of certain products from Poland. Agreement valid January 1, 1967-December 31, 1969.	
		Item	**Quota in U.S. Dollars**
		Printed fabric of man-made fibers or cotton	63,000
		Wool fabric, pure or mixed	20,000
		Various textile products, fiber not specified	20,000
		Dyed fabric of continuous cellulosic fiber	105,000

1/ The initials p. m. (pro memoria) signify that, although no quota is set, the agreement envisions trade in the item with each transaction subject to individual approval.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Benelux	Japan	Benelux-Japanese bilateral agreement in effect until April 30, 1969, contains provision for ceilings on Benelux imports of certain man-made fiber products from Japan. 1967 quotas given below remain in force.

Item	Quota in Metric Tons
Yarn of man-made fibers and rayon fibers put up for retail sale	65
Woven man-made fiber filament yarn fabrics, printed	50
Woven man-made fiber filament yarn fabrics, not printed excluding grey	300
Woven man-made fiber spun yarn fabrics, printed	78
Woven man-made fiber spun yarn fabrics, not printed excluding grey	170
Grey cloth of man-made fibers and of cotton	$1,240,000
Ribbon, lace, braid and trimming, not silk of all fibers	30
Women's, girls' and infants' outergarments, not silk or wool (excluding kimonos)	60
Men's and boys' shirts and pyjamas of man-made fibers and cotton	85
Handkerchiefs of cotton and man-made fibers	18
Shawls, scarves, etc., of man-made fibers	70

In addition, all other imports from Japan are subject to licensing. A market disruption clause provides for immediate consultations should any industry (including the textile industry) be actually or potentially injured. If no agreement can be reached within a reasonable time, the Benelux countries may impose quantitative restrictions as deemed appropriate. This clause, however, has never been invoked, and licensing requirements have evidently not been used restrictively.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Benelux	Czechoslovakia	Benelux-Czechoslovak trade agreement contains a provision for the following ceilings on Benelux imports of textile/apparel products from Czechoslovakia.

Item	Quota
Printed fabrics of continuous man-made fibers, excluding crepes Other fabrics, containing at least 85% by weight of cotton, printed Printed fabrics of discontinuous man-made fibers other than mixtures solely or in major part of wool or fine animal hair, excluding crepes	$ 69,000
Continuous man-made fiber fabrics, excluding: Unbleached and printed fabrics, crepes, and fabrics for tires Other fabrics, containing at least 85% by weight of cotton, excluding: Unbleached and non-mercerized fabrics and printed fabrics Discontinuous man-made fiber fabrics other than mixtures solely or in major part of wool or fine animal hair, excluding: Unbleached and printed fabrics and crepes	$200,000
Dyed man-made fiber fabrics (continuous), excluding light-woven fabrics	p. m. 1/
Woven fabrics of wool or fine animal hair, excluding fabrics for travelling rugs and blankets not referred to in item 62.01 Discontinuous man-made fiber fabrics containing less than 85% by weight man-made fibers, mixed solely or in major part with wool or fine animal hair, excluding unbleached fabrics Woven pile fabrics, and chenille fabrics (other than fabrics falling within headings Nos. 55.08 and 55.05) of wool, or of fine or coarse animal hair	$ 55,200
Gloves, mitts, etc., knitted or crocheted, not elastic nor rubberized, of man-made fiber fabrics	3,850 dozen pairs
Ladies' stockings, of man-made fibers	1,050 dozen pairs

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION	
		Item	Quota
Benelux	Czechoslovakia	Stockings and socks, of man-made fibers, other than ladies' stockings	p. m. 1/
		Undergarments, knitted or crocheted, not elastic nor rubberized, man-made fiber fabrics, cotton or other vegetable fibers	$ 69,000
		Men's and boys' undergarments, including collars, shirtfronts and cuffs of man-made fiber fabrics, and other textile fabrics excluding silk, yarn spun from silk waste, yarn spun from noil silk, wool, or fine animal hair) Women's girls', and infants' undergarments	$ 27,600
		Man-made fibers (discontinuous), not carded, combed, or otherwise prepared for spinning	
		Waste (including yarn waste and pulled or garnetted rags) of man-made fibers (continuous or discontinuous), not carded, combed, or otherwise prepared for spinning	p. m. 1/
		Tents, excluding play tents	$110,400
		Air mattresses	23,000 units

1/ The initials p. m. (pro memoria) signify that although no quota is set, the agreement envisions trade in the item with each transaction subject to individual approval.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
The Netherlands	Democratic Republic of Germany	Commercial agreement of 1966 between the Netherlands Chamber of Commerce for East Germany and the Foreign Trade Chamber of East Germany remains in force. Although this is a "private" rather than intergovernmental agreement, the following ceilings apply to Dutch imports of textile/apparel products from East Germany:

Item	Partial value	Total value
Textiles including the following:		$2,208,000
Print fabrics including the following:	$113,160	
Print fabrics of continuous man-made fibers except crepe fabrics; Other print fabrics containing 85% or more cotton by weight; Print goods of man-made fibers except: fabrics mixed chiefly or entirely with wool or fine animal hair, and crepe fabrics	$51,060	
Other print fabrics	$ 62,100	
Unprinted fabrics including the following:	$289,800	
Fabrics of continuous man-made fibers, except print fabrics, unfinished fabrics, crepe fabrics and fabrics for manufacture of tires; Other fabrics containing 85% or more cotton by weight, except print fabrics and unbleached, non-mercerized fabrics; Fabrics of man-made fiber yarn, except fabrics mixed chiefly or entirely with wool or fine animal hair; print fabrics, unfinished fabrics and crepe fabrics	$220,800	

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION: Item	Partial value	Total value
The Netherlands	Democratic Republic of Germany	Fabrics of wool or fine animal hair, except fabrics for woolen blankets; fabrics of man-made fiber yarn, mixed chiefly or entirely with wool, except unfinished fabrics; velvet, plush, pile fabrics and chenille fabrics of wool	$ 69,000	
		Gloves, mittens, and similar articles of man-made fibers (not rubberized or elasticized)	$118,680	
		Rugs including: Floor covering, hanging carpets, and table spreads	$552,000	
		Tulle and netting (filet), rayon fabrics, cottons, cotton lace and punchwork, incl. burnt-out lace	$317,400	
		Miscellaneous notions, ribbons and piping	$ 96,600	
		including:		
		Ladies' hosiery of rayon yarns	48,000 dz. pairs	
		Hosiery and half-hose of full man-made fiber yarns	18,000 dz. pairs	
		Crocheted men's half-hose with knit-on selvage edge not having inserted pattern, weighing 80 to 120 g, of man-made fiber yarns or wool	p.m. 1/	
		Tricot goods	p.m. 1/	
		Knit goods	p.m. 1/	
		Ready-to wear apparel	p.m. 1/	

1/ The initials p.m. (pro memoria) signify that, although no quota is set, the agreement envisions trade in the item with each transaction subject to individual approval.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Belgo-Luxembourg Economic Union (BLEU)	Democratic Republic of Germany	Trade agreement of 1966 between the Belgian Economic Office and the East German Chamber of Commerce remains in force. Although this is a "private" rather than intergovernmental agreement, the following ceilings apply to BLEU imports of textile/apparel products from East Germany.

Item	Quota
Sporting, camping and gymnastic equipment	$800,000
Including the following:	
Air mattresses	15,500 units
Tents	50 metric tons
Various fabrics	$120,000
Including the following:	
Printed fabrics, fiber not specified	$20,000
Fabrics, other than printed or unbleached, fiber not specified	$40,000
Woven fabrics of wool, pure or mixed	$30,000
Unbleached fabrics, fiber not specified	$20,000
Made-up articles, including terry cloth and shirts	$20,000
Table linen, bed linen, and toilet linen, including pocket handkerchiefs	$20,000
Man-made fibers (discontinuous) not carded, combed, or otherwise prepared for spinning (850 metric tons)	$400,000
Travelling rugs and blankets, felt, and the like	$20,000
Knitted and crocheted goods, corsets, and undergarments	$320,000
Including the following:	
Undergarments and outergarments, including training clothes, fiber not specified	$50,000
Corsets, fiber not specified	$20,000
Gloves of man-made fibers	15,750 dozen pairs
Ladies' stockings wholly made of man-made fibers	6,500 dozen pairs
Socks of man-made fibers or of wool	$12,000
Other stockings and socks, fiber not specified	$100,000
Undergarments, fiber not specified	$74,000
Carpets, fiber not specified	$100,000
Tulle, lace, net, trimmings, and the like, fiber not specified	$60,000

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Benelux	Romania	Benelux-Romanian trade agreement renewed November 21, 1969, for a period of five years beginning January 1, 1970, includes the following ceilings on Benelux imports of certain man-made fiber products from Romania.

Item	Quota
Undergarments, knit, of man-made fibers, cotton or other vegetable fiber	$110,000
Gloves, mittens and similar woven items of man-made fibers	1,500 dozen pairs
Women's hosiery of non-cellulosic fibers	8,500 dozen pairs
Men's heavy knitted hosiery of wool or cellulosic fibers	4,000 dozen pairs
Man-made fiber fabrics, fabrics containing at least 85% by weight of cotton (excluding unbleached or printed fabric and crepe)	$116,000
Printed fabric of continuous man-made fiber (excluding crepe) printed fabric containing at least 85% by weight of cotton, printed fabric of discontinuous man-made fibers (other than those mixed principally or only with wool, excluding crepes)	$ 60,000
Wool fabric, man-made fiber fabric containing at least 85% by weight of man-made fibers mixed principally or only of wool or other fine animal hair	$ 22,000
Cellulosic man-made fibers	p. m. 1/

1/ The initials p. m. (pro memoria) signify that, although no quota is set, the agreement envisions trade in the item with each transaction subject to individual approval.

CANADA/WOOL

CANADA

The Republic of Korea agreed on November 26, 1969, to apply ceilings on Korean exports of certain wool products to Canada for CY 1969.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Canada	Republic of Korea	The Korean Government agreed to apply he following ceilings on Korean exports of certain wool products in 1969.

Items	Quota
Broadwoven worsted fabric	166,625 sq. yds.
Narrow fabric of all fibers	50,794 lbs.
Gloves, of all fibers (including non-textiles)	22,145 dozen

Explanatory Notes

For the purposes of the Canadian-Korean Agreement the following definitions of wool products will apply to products of mixed and blended fibers.

Defined as	Fiber Composition	Percentage of Fiber Content (by weight)
Wool	Wool and silk	Over 65% wool
	Wool and cotton	33% and over wool
	Wool and man-made fiber	40% and over wool

CANADA/MAN-MADES

CANADA

Canadian-Hong Kong Memorandum of Understanding of September 9, 1969, provides for ceilings on Hong Kong exports of polyester, polyester/cotton, and polyester/polynosic shirts, blouses and trousers to Canada for one year beginning October 1, 1969.

Canadian-Malaysian Memorandum of Understanding of October 16, 1968, amended December 10, 1969, provides ceilings on Malaysian exports of cotton and polyester/cotton shirts and trousers (including slacks, shorts, and jeans) to Canada.

Canadian-Singapore Memorandum of Understanding of August 14, 1968, provides ceilings on Singapore's exports of cotton and polyester/cotton shirts and trousers (including slacks, shorts, and jeans) to Canada.

Canadian-Taiwan bilateral textile agreement provides for ceilings on Taiwan's exports of polyester/cotton garments for two 12-month periods beginning October 10, 1969.

Canadian-Japanese agreement includes provision for ceilings on Japanese exports of certain man-made fiber products.

Peoples Republic of China agreed to limit exports of certain man-made fiber textiles to Canada for the year beginning August 1, 1968.

The Republic of Korea on November 26, 1969, agreed to apply ceilings on Korean exports of man-made fiber fabric and apparel products to Canada for CY 1969.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION	
Canada	Hong Kong	Canadian-Hong Kong Memorandum of Understanding of September 9, 1969, provides the following ceilings on Hong Kong exports of polyester, polyester/cotton, and polyester/polynosic shirts, blouses and trousers to Canada for one year beginning October 1, 1969.	
		Item	Quota in Dozens
		Shirts made from woven fabrics of 100% polyester, of blended polyester/cotton of major weight polyester, and of blended polyester/polynosic fibres.	100,000
		Blouses made from woven fabrics of 100% polyester, and of blended polyester/cotton of major weight polyester fibres.	41,600
		Trousers made from woven fabrics of 100% polyester, and of blended polyester/cotton of major weight polyester fibres.	56,375
		During the period of restraint it is the intention of the Hong Kong Government to allow any of the category limits to be exceeded by not more than 10 percent, but the aggregate of the three category limits will not be exceeded.	

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Canada	Republic of Korea	The Korean Government agreed to apply the following ceilings on Korean exports of man-made fiber fabric and apparel in 1969.

Item	Quota
Broadwoven fabrics wholly or substantially of nylon	247,500 sq. yds.
Garments, cotton and/or man-made fiber	
Woven shirts	60,419 dozen
Blouses	40,670 "
Sleepwear	41,839 "
Trousers, slacks and shorts	76,385 "
Knitted man-made fiber shirts	20,806 "

Also included is a provision for ceilings on exports of worsted fabrics, narrow fabrics and gloves.

Item	Quota
Narrow fabrics of all fibers (not more than half to be elastic	50,794 lbs.
Gloves, of all fibers (including non-textiles)	22,145 dozen

Explanatory Notes

For the purposes of the Canadian-Korean Agreement the following definitions of man-made fibre products will apply to products of mixed and blended fibers.

Defined as	Fiber Composition	Percentage of Fiber Content (by weight)
Cotton	Cotton and silk	over 88% cotton
	Cotton and wool	over 67% cotton
	Cotton and man-made fiber	over 55% cotton

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Canada	Republic of Korea	

Defined as	Fiber Composition	Percentage of Fiber Content
Man-made fiber	Man-made fiber and cotton	45% and over man-made fiber
	Man-made fiber and silk	75% and over man-made fiber
	Man-made fiber and wool	over 60% man-made fiber

The following schedule of deductions for overshipments will be applied in determining the relevant effective voluntary quotas for 1969, 1970 and 1971:

Item	Unit	Schedule of Deductions 1969	1970	1971
Garments of cotton and/or man-made fibers				
Woven shirts	dozen	20,000	35,000	35,000
Blouses	dozen	10,911	10,911	10,911
Trousers, slacks and shorts	dozen	8,963	8,963	8,964
Broadwoven fabrics substantially of nylon	sq. yds.	34,666		

In those cases where overshipments have occurred the relevant effective voluntary quotas for 1969 have been calculated as follows:

Item	Unit	Basic level	Less deduction for overshipment	Effective level
Garments of cotton and/or man-made fiber				
Woven shirts	dozen	60,419	20,000	40,419
Blouses	dozen	40,670	10,911	29,759
Trousers, slacks, and shorts	dozen	76,385	8,963	67,422
Broadwoven fabrics substantially of nylon	sq. yds.	247,500	34,666	212,834

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Canada	Malaysia	Canadian-Malaysian Memorandum of Understanding of October 16, 1968, amended December 10, 1969, provides the following ceilings on Malaysian exports of cotton and polyester/cotton shirts and trousers (including slacks, shorts, and jeans) to Canada.

	Year Beginning		
	Sept. 1, 1968	Sept. 1, 1969	Sept. 1, 1970
	(dozens)		
Shirts			
Gross export quota	32,853	44,636	45,498
Less overshipments	11,986	19,660	19,660
Net export quota	20,867	24,976	25,838
Trousers			
Gross export quota	28,900	29,468	30,053
Less overshipments	9,974	9,974	9,974
Net export quota	18,926	19,494	20,079

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Canada	Singapore	Canada-Singapore Memorandum of Understanding of August 14, 1968, provides the following ceilings of Singapore's exports of cotton and polyester/cotton shirts and trousers (including slacks, shorts, and jeans) to Canada.

	Year Beginning Jan. 1, 1968	Jan. 1, 1969	Jan. 1, 1970
	(dozens)		
Shirts			
Gross export quota	22,000	22,000	22,000
Less overshipments	4,000	4,000	4,000
Net export quota	18,000	18,000	18,000
Trousers			
Gross export quota	60,000	60,000	60,000
Less overshipments	32,000	32,000	32,000
Net export quota	28,000	28,000	28,000

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
	Republic of China	Bilateral textile agreement provides for ceilings on Taiwan's exports of polyester/cotton garments for two 12-month periods beginning October 10, 1969.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Canada	Republic of China	

Item	Year Beginning October 10, 1969	Year Beginning October 10, 1970
	(Quota in dozens)	
Category A:		
Woven Polyester/Cotton Shirts and/or Polyester/Polynosic Shirts		
Basic level	60,181	60,181
Deductions related to previous shipments	14,145	13,215
Effective level	46,036	46,966
Category B:		
Woven Polyester/Cotton Trousers, Slacks and Outer Shorts		
Basic level	21,078	21,078
Deductions related to previous shipments	8,082	7,692
Effective level	12,996	13,386

These restraint levels will apply to (1) those shirts, trousers, slacks and outer shorts that are made of polyester and cotton fiber blends in which the percentage of polyester fiber by weight is 50 percent or more, and (2) shirts of polyester and polynosic fiber blends.

November 9, 1969, the Chinese agreed to restrain exports to Canada of *inter alia* cotton or rayon trousers as specified below:

Item	Year beginning July 1, 1969	Year beginning July 1, 1970
Cotton or Rayon Trousers	71,050 dozen	72,116 dozen

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Canada	Japan	Canadian-Japanese Agreement includes provision for ceilings on Japanese exports of certain man-made fiber products. 1969 levels given below.

Item	Quota in Dozens
Blouses, polyester/cotton blends (1)	42,863
Shirts, polyester/cotton blends	80,997
Trousers and outershorts, synthetic	59,410
Knitted wear, spun rayon and synthetic (2)	401,082

Item	Quota
Elastic braid of all fibers	605,000 lbs.
Fabrics of nylon (includes only fabric for use in the manufacture of apparel	3,8111,500 sq. yds.

(see next page for footnotes (1) and (2)

Shipments under the preceding quotas and sub-quotas may be increased by not more than 5 percent in 1969 with equivalent reductions in shipments under the corresponding quotas and sub-quotas for 1970.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Canada	Japan	(1) The Canadian-Japanese bilateral includes quotas for cotton products as well as man-made fiber. The subgroups for shirts and blouses may each be increased up to 10% by transfers of quotas, but the total must remain stable. Transfers to the man-made fiber subgroup for trousers and shorts may increase the amount by up to 20%. The Japanese Government will urge Japanese producers and exporters to so plan their shipments that there will be no undue concentration on any item within the quota categories. (2) Includes knitted wear of spun rayon and synthetic fiber as defined in the Explanatory Notes and also knitted wear of synthetic fibers blended with wool, containing more than 50% by weight of synthetic fiber.

Explanatory Notes

In the above table "Synthetic" includes rayon filament and all other man-made fibers except spun rayon, except in the case of synthetic shirt and blouses, as noted.

The following is a table of criteria used by the Government of Japan to distinguish between the quota categories of made-up textiles which are a mixture of various fiber components. The basic principle for the criteria is chief value, converted into percentage of fiber content by weight, so that the percentages vary extensively.

Defined	Fiber Composition	Percentage of Fiber Content (by weight)
Cotton	Cotton and silk	88% and over Cotton
	Cotton and wool	67% and over Cotton
	Cotton and rayon filament	40% and over Cotton
	Cotton and spun rayon	30% and over Cotton
	Cotton and synthetic fiber	51% and over Cotton
Spun rayon	Spun rayon and wool	91% and over Spun Rayon
	Spun rayon and silk	91% and over Spun Rayon
	Spun rayon and jute or flax	71% and over Spun Rayon
	Spun rayon and synthetic fiber	71% and over Spun Rayon
	Spun rayon and cotton	71% and over Spun Rayon
	Spun rayon and rayon filament	Regardless of percent fiber content

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION		
		Defined	Fiber Composition	Percentage of Fiber Content (by weight)
Canada	Japan	Rayon filament	Rayon filament and cotton	61% and over Rayon Filament
			Rayon filament and synthetic fiber	51% and over Rayon Filament
		Synthetic fiber	Synthetic fiber and rayon filament	50% and over Synthetic Fiber
			Synthetic fiber and jute or flax	50% and over Synthetic Fiber
			Synthetic fiber and cotton	50% and over Synthetic Fiber
			Synthetic fiber and spun rayon	30% and over Synthetic Fiber

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Canada	People's Republic of China	Canada has requested the People's Republic of China to limit exports of certain man-made fibre textiles to Canada during the period August 1, 1968 to July 31, 1969 as follows:

Item	Quota
Textile items (not including those wholly or substantially of silk, linen, ramie) other than cotton	
(a) ladies dress gloves	75,600 dozen
(b) work gloves (not containing leather)	60,500 dozen
(c) kitchen and dish towels, crash	250,000 pounds
(d) all other towels, excluding terry	212,000 pounds
(e) terry towels and bath mats	304,750 pounds
(f) fabrics, wholly or substantially of man-made fibres	276,000 pounds
(g) narrow fabrics	72,000 pounds
(h) garments of man-made fibres or mixed fibres	
1) knitted	43,750 dozen
2) other	60,500 dozen

Canada has requested the People's Republic of China to limit exports of worsted type woven fabrics to Canada during the period August 1, 1968 to July 31, 1969 as follows:

Item	Quota
Worsted type woven fabrics	200,000 pounds

NOTE: Where not expressly excluded by the description and/or the nature of the product, all nomenclature used in this list shall be taken to include semi-finished as well as finished products.

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DENMARK/WOOL

DENMARK

Import licenses are required for all exports from non-Free List countries (including Communist bloc countries, Japan, Hong Kong, Korea, Taiwan). Licenses are used as a means of regulating imports from the non-Free List countries; however, specific ceilings are not in force.

Danish-Eastern European Trade Agreements. Denmark maintains trade agreements with Bulgaria, Czechoslovakia, Hungary, Peoples Republic of China, Poland, Romania, and U.S.S.R. which provide ceilings on Danish imports of certain wool and man-made fiber textile and apparel products.

Denmark-Democratic Republic of Germany (private) trade arrangement provided for a ceiling of $5.6 million to E. German exports of textile/apparel products to Denmark during CY '68.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Denmark	Czechoslovakia	Danish-Czechoslovak Long-Term Trade Agreement for the period June 1, 1966 - May 31, 1971, amended by May 1969 trade protocol, includes the following ceilings on Danish imports of textile/apparel products from Czechoslovakia effective June 1, 1969 to May 31, 1970.

Item	Tariff No.	Quota in U.S. Dollars 1/
Gloves, hosiery	60.02 61.10	6,666
Carpets, n.e.s.; fiber not specified	58.02	(333,333)
Miscellaneous textile articles, n.e.s.		600,000

1/ Dollar value in parentheses only indicative level.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Denmark	Hungary	Danish-Hungarian Long-Term Agreement valid for CY 1970-74 includes the following ceilings on Danish imports of textile/apparel goods from Hungary; 1970 ceilings follow:

Item	Quota in U. S. Dollars
Yarn, fiber not specified	p. m. 1/
Textile fabric, fiber not specified	646, 666
Ready-made textile products (hosiery; undergarments; men's, women's and children's clothing; scarves; knit goods; gloves; white linen and cotton goods)	306, 666
Twine, cordage of hemp, flax, nylon, etc.	15, 333

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
	Bulgaria	Danish-Bulgarian trade protocol of November 6, 1969, provides the following ceilings on Danish imports of textile/apparel products from Bulgaria during CY 1970.

Item	Tariff No.	Quota in U. S. Dollars
Other yarn goods, including table napery, bed sheeting, hand towels, knit goods, apparel apparel accessories and yarn goods, n. e. s., fiber not specified	ex chapters 50-62	293, 333
Hosiery, socks, fiber not specified	ex 60.03	53, 333

1/ The initials p. m. (pro memoria) signify that, although no quota is set, the agreement envisions trade in the item with each transaction subject to individual approval.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Denmark	Romania	Danish-Romanian Long-Term Trade Agreement of April 14, 1966, amended by trade protocol of December 4, 1969, established the following ceilings on Danish imports of wool textile products from Romania by CY 1970. Item / Tariff No. / Quota in $1,000 Piece goods of cotton (except grey), wool and man-made fiber / 51.04, 53.11, 55.07-09, 56.07 / 253 Knitted goods and made-up textile articles / Chapters 60-62 / 253
	Poland	Danish-Polish trade agreement of September 3, 1965, amended periodically. The 1970 protocol provides the following ceilings on Danish imports of Polish wool textile, apparel products for CY 1970. Item / Tariff No. / Quota in $1,000 Textiles for the textile export industry / ex 53 (wool), ex 55 (cotton), ex 56 (man-made fiber, discontinuous) / 473 Textile articles, not less than 17% piece goods / / 1,373
	Peoples Republic of China	Danish-Chinese trade agreement of December 1, 1957, automatically extended each year, includes a ceiling of $2 million for all textiles exported from Communist China to Denmark.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Denmark		
	Free List (see attachment)	Import licenses are required for all exports from non- Free List countries (including Communist bloc countries, Japan, Hong Kong, Korea, Taiwan). Licenses are used as a means of regulating imports from the non-Free List countries; however, specific ceilings are not in force.
	Yugoslavia	Danish-Yugoslav trade officials are considering imposition of ceilings on Yugoslav exports to Denmark of men's coats particularly men's blazers of man-made fibors. This action is a result of increased imports from Yugoslavia which equalled 74% of Denmark's imports of blazers during the first nine months of 1968.
	Democratic Republic of Germany	Since 1956 four Danish trade associations (the Agricultural Council, the Federation of Danish Industries, the Copenhagen Chamber of Commerce, and the Provincial Chamber of Commerce) have been parties to an unofficial trade agreement with the East German Chamber of Commerce. Although this is a "private" rather than intergovernmental agreement, a ceiling of $2.6 million was applied to Danish imports of textile/apparel items from Germany during CY 1968.

ATTACHMENT

The Danish Free List Area
Specification of Countries

EUROPE

104	Finland
106	Iceland
110	Norway (including Svalbard)
120	Sweden
124	Andorra
126	Belgium, Luxemburg
130	France, Monaco
132	Gibraltar
134	Greece
140	Netherlands
142	Eire
150	Italy, the Vatican State, San Marino
152	Yugoslavia
153	Malta
156	Portugal, (with the Azores and Madeira)
160	Switzerland, Liechtenstein
164	Spain
165	Canary Islands
170	Great Britain and Northern Ireland (UK)
172	Turkey
180	Western Germany (the Federal Republic of Germany)
182	Austria

AFRICA

202	Algeria
207	Botswana
213	Burundi
214	Ethiopia
218	French Somaliland
222	Gambia
228	Ghana
232	Guinea
234	Kenya
235	Lesotho
236	Liberia
238	Libya

242 Madagascar
243 Mali
244 Morocco
245 Mauritius, Seychelles a.o. (British)
246 Nigeria
248 Portuguese West Africa (with Portuguese Guinea, Angola, the Capo Verdi Islands, Sao Thomé and Principe)
252 Portuguese East Africa (Mozambique)
253 St. Helena a.o. (British)
255 Sierra Leone
256 Spanish possessions in Africa (except Canary Islands)
258 Sudan
259 Swaziland (British)
262 The South African Republic
264 South West Africa
266 Tanzania, the United Republic of
268 Tunisia
269 Uganda
276 Central African Republic
277 Cameroon
278 Congo (Kinshasa)
279 Congo (Brazzaville)
281 Dahomey
282 Ivory Coast
283 Gabon
284 Mauritania
285 Niger
286 Reunion, Comore Islands, Kerguelen Islands a.o. (French)
287 Rwanda
288 Senegal
289 Somalia
292 Chad
293 Togo
294 Upper Volta
296 Zambia
297 Malawi

ATTACHMENT

<u>AMERICA</u>

302 Argentina
303 Bahama Islands
304 Bolivia
305 Barbados
Paraguay
307 Bermudas
308 Guyana
312 British Honduras
314 Canada
316 Chile
322 Costa Rica
324 Cuba
326 The Dominican Republic
328 Ecuador
332 Falkland Islands, South Georgia a.o. (British)
334 French Guiana
336 French West Indies (including Guadeloupe and Martinique) Saint-Pierre and Miquelon
338 Guatemala
342 Haiti
344 Dutch Guiana (Surinam)
346 Dutch West Indies (Aruba and Curacao)
348 Honduras
352 Jamaica
354 Mexico
356 Nicaragua
358 Panama, except the Canal Zone
362 The Panama Canal Zone and other United States possessions in the West Indies, except Puerto Rico

366 Peru
368 Puerto Rico
372 Salvador
374 Trinidad and Tobago
376 Uruguay
390 United States
392 Venezuela
394 Other British possessions in the West Indies (including Turks, Caicos and Cayman Islands, and other British possessions in the Windward and Leeward islands)

ASIA

402 The South Arabian Federation (including Aden), Hadhramaut a.o. and the islands of Kamaran, Perim, Soqotra, Kuria Muria
404 Afghanistan
406 The Bahrein Islands, Qatar
412 Brunei
414 Burma
416 Cambodia
418 Ceylon
422 Cyprus
428 Hong Kong
432 India (with the Andaman, Nicobar and Laccadive Islands a.o.), Bhutan, Sikkim
434 Indonesia (including the former Dutch New Guinea)
436 Iraq
438 Iran (Persia)
442 Israel
446 Jordan
452 Kuwait
454 Laos
456 Lebanon
457 Maldive Islands
458 Malaysia (including Sarawak and Sabah (formerly British North Borneo))
462 Muscat and Oman, Trucial States
464 Nepal
472 Pakistan
474 The Philippines
476 Portuguese possessions in Asia (Portuguese Timor and Macao)
478 Saudi Arabia
482 Singapore
488 South Viet-Nam (the Republic of Viet-Nam)
492 Thailand (Siam)
494 Yemen

ATTACHMENT

OCEANIA

502	Australia (with possessions)
504	British possessions in the Pacific
506	French possessions in the Pacific
512	Nauru
514	New Zealand (with possessions)
515	New Guinea
516	New Hebrides
518	United States possessions in the Pacific and Pacific Islands under the joint administration of the United Kingdom and the United States: Canton and Enderbury
522	Western Samoa

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION	
Denmark	U.S.S.R.	Danish-Soviet trade agreement CY 1964-69 includes provision for ceilings on Danish imports from the U.S.S.R. of various products given in List I. The agreement states that this list is not definitive; however, the importation of products for which no quotas have been established is subject to the approval of the Danish authorities. The only two categories on the permitted list which may include wool textile products are given below with 1969 ceilings.	
		<u>Item</u>	<u>Quota in $1,000</u>
		Miscellaneous goods	2,700
		Goods traditionally imported into Denmark from U.S.S.R. and other countries	6,210

DENMARK/MAN-MADES

DENMARK

Import licenses are required for all exports from non-Free List countries (including Communist bloc countries, Japan, Hong Kong, Korea, Taiwan). Licenses are used as a means of regulating imports from the non-Free List countries; however, specific ceilings are not in force.

Danish-Eastern European Trade Agreements. Denmark maintains trade agreements with Bulgaria, Czechoslovakia, Hungary, Peoples Republic of China, Poland, Romania, and U.S.S.R. which provide ceilings on Danish imports of certain wool and man-made fiber textile and apparel products.

Denmark-Democratic Republic of Germany (private) trade arrangement provided for a ceiling of $5.6 million to E. German exports of textile/apparel products to Denmark during CY '68.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Denmark	Bulgaria	Danish-Bulgarian trade protocol of November 6, 1969, provides the following ceilings on Danish imports of textile/apparel products from Bulgaria during CY 1970.

Item	Tariff No.	Quota in U.S. Dollars
Other yarn goods, including table napery, bed sheeting, hand towels, knit goods, apparel, apparel accessories and yarn goods, n.e.s., fiber not specified	ex chapters 50-62	293,333
Hosiery, socks, fiber not specified	ex 60.03	53,333

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
	Hungary	Danish-Hungarian Long-Term Agreement valid for CY 1970-74 includes the following ceilings on Danish imports of textile/apparel goods from Hungary; 1970 ceilings follow:

Item	Quota in U.S. Dollars
Yarn, fiber not specified	p.m. 1/
Oilcloth and synthetic leather, fiber not specified	46,666
Textile fabric, fiber not specified	646,666
Ready-made textile products (hosiery; undergarments; men's, women's and children's clothing; scarves; knit goods; gloves; white linen and cotton goods)	306,666
Twine, cordage of hemp, flax, nylon, etc.	15,333

1/ The initials p.m. (pro memoria) signify that, although no quota is set, the agreement envisions trade in the item with each transaction subject to individual approval.

<table>
<tr><th>IMPORTING COUNTRY</th><th>COUNTRY OF ORIGIN</th><th>RESTRICTION</th></tr>
<tr><td>Denmark</td><td>Romania</td><td>Danish-Romanian Long-Term Trade Agreement of April 14, 1966, amended by trade protocol of December 4, 1969, established the following ceilings on Danish imports of man-made fiber textile products from Romania by CY 1970.
<table>
<tr><th>Item</th><th>Tariff No.</th><th>Quota in $1,000</th></tr>
<tr><td>Piece goods of cotton (except grey), wool and man-made fiber</td><td>51.04
53.11
55.07-09
56.07</td><td>253</td></tr>
<tr><td>Knitted goods and made-up textile articles</td><td>Chapters 60-62</td><td>253</td></tr>
</table></td></tr>
<tr><td></td><td>Poland</td><td>Danish-Polish trade agreement of September 3, 1965, amended periodically. The 1970 protocol provides the following ceilings on Danish imports of man-made fiber textiles from Poland for CY 1970.
<table>
<tr><th>Item</th><th>Tariff No.</th><th>Quota in $1,000</th></tr>
<tr><td>Textiles for the textile export industry</td><td>ex 53 (wool)
ex 55 (cotton)
ex 56 (man-made fiber, discontinuous)</td><td>473</td></tr>
<tr><td>Textile articles, not less than 17% piece goods</td><td></td><td>1,373</td></tr>
</table></td></tr>
<tr><td></td><td>Peoples Republic of China</td><td>Danish-Chinese trade agreement of December 1, 1957, automatically extended each year, includes a ceiling of $2 million for all textiles exported from Communist China to Denmark.</td></tr>
</table>

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Denmark	U.S.S.R.	Danish-Soviet trade agreement CY 1964-69 includes provision for ceilings on Danish imports from the U.S.S.R. of various products given in List I. The agreement states that this list is not definitive; however, the importation of products for which no quotas have been established is subject to the approval of the Danish authorities. The only two categories on the permitted list which may include man-made fiber textile products are given below with 1969 ceilings.

Item	Quota in $1,000
Miscellaneous goods	2,700
Goods traditionally imported into Denmark from U.S.S.R. and other countries	6,210

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Denmark	Czechoslovakia	Danish-Czechoslovak. Long-Term Trade Agreement for the period June 1, 1966 - May 31, 1971, amended by May 1969 trade protocol, includes the following ceilings on Danish imports of textile/apparel products from Czechoslovakia effective June 1, 1969 to May 31, 1970.

Item	Tariff No.	Quota in U.S. Dollars
Artificial leather and oilcloth	59.08, .09, .11	(7,333)
Gloves, hosiery	60.02, 61.10	6,666
Carpets, n.e.s.; fiber not specified	58.02	(333,333)
Miscellaneous textile articles, n.e.s.		600,000
Tents	ex 62.04	6,666
Air mattresses		5,333

1/ Dollar value in parentheses only indicative level

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Denmark		
	Free List (see attachment)	Import licenses are required for all exports from non- Free List countries (including Communist bloc countries, Japan, Hong Kong, Korea, Taiwan). Licenses are used as a means of regulating imports from the non-Free List countries; however, specific ceilings are not in force.
	Yugoslavia	Danish-Yugoslav trade officials are considering imposition of ceilings on Yugoslav exports to Denmark of men's coats particularly men's blazers of man-made fibers. This action is a result of increased imports from Yugoslavia which equalled 74% of Denmark's imports of blazers during the first nine months of 1968.
	Democratic Republic of Germany	Since 1956 four Danish trade associations (the Agricultural Council, The Federation of Danish Industries, the Copenhagen Chamber of Commerce, and the Provincial Chamber of Commerce) have been parties to an unofficial trade agreement with the East German Chamber of Commerce. Although this is a "private" rather than intergovernmental agreement, a ceiling of $2.6 million was applied to Danish imports of textile/apparel items from Germany during CY 1968.

ATTACHMENT

The Danish Free List Area
Specification of Countries

EUROPE

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126	Belgium, Luxemburg
130	France, Monaco
132	Gibraltar
134	Greece
140	Netherlands
142	Eire
150	Italy, the Vatican State, San Marino
152	Yugoslavia
153	Malta
156	Portugal, (with the Azores and Madeira)
160	Switzerland, Liechtenstein
164	Spain
165	Canary Islands
170	Great Britain and Northern Ireland (UK)
172	Turkey
180	Western Germany (the Federal Republic of Germany)
182	Austria

AFRICA

202	Algeria
207	Botswana
213	Burundi
214	Ethiopia
218	French Somaliland
222	Gambia
228	Ghana
232	Guinea
234	Kenya
235	Lesotho
236	Liberia
238	Libya

242 Madagascar
243 Mali
244 Morocco
245 Mauritius, Seychelles a.o. (British)
246 Nigeria
248 Portuguese West Africa (with Portuguese Guinea, Angola, the Capo Vordi Islands, Sao Thomé and Principe)
252 Portuguese East Africa (Mozambique)
253 St. Helena a.o. (British)
255 Sierra Leone
256 Spanish possessions in Africa (except Canary Islands)
258 Sudan
259 Swaziland (British)
262 The South African Republic
264 South West Africa
266 Tanzania, the United Republic of
268 Tunisia
269 Uganda
276 Central African Republic
277 Cameroon
278 Congo (Kinshasa)
279 Congo (Brazzaville)
281 Dahomey
282 Ivory Coast
283 Gabon
284 Mauritania
285 Niger
286 Reunion, Comore Islands, Kerguelen Islands a.o. (French)
287 Rwanda
288 Senegal
289 Somalia
292 Chad
293 Togo
294 Upper Volta
296 Zambia
297 Malawi

ATTACHMENT

AMERICA

302 Argentina
303 Bahama Islands
304 Bolivia
305 Barbados
Paraguay
307 Bermudas
308 Guyana
312 British Honduras
314 Canada
316 Chile
322 Costa Rica
324 Cuba
326 The Dominican Republic
328 Ecuador
332 Falkland Islands, South Georgia a.o. (British)
334 French Guiana
336 French West Indies (including Guadeloupe and Martinique) Saint-Pierre and Miquelon
338 Guatemala
342 Haiti
344 Dutch Guiana (Surinam)
346 Dutch West Indies (Aruba and Curacao)
348 Honduras
352 Jamaica
354 Mexico
356 Nicaragua
358 Panama, except the Canal Zone
362 The Panama Canal Zone and other United States possessions in the West Indies, except Puerto Rico

ATTACHMENT

365 Peru
368 Puerto Rico
372 Salvador
374 Trinidad and Tobago
376 Uruguay
390 United States
392 Venezuela
394 Other British possessions in the West Indies (including Turks, Caicos and Cayman Islands, and other British possessions in the Windward and Leeward islands)

ASIA

402 The South Arabian Federation (including Aden), Hadhramaut a.o. and the islands of Kamaran, Perim, Soqotra, Kuria Muria
404 Afghanistan
406 The Bahrein Islands, Qatar
412 Brunei
414 Burma
416 Cambodia
418 Ceylon
422 Cyprus
428 Hong Kong
432 India (with the Andaman, Nicobar and Laccadive Islands a.o.), Bhutan, Sikkim
434 Indonesia (including the former Dutch New Guinea)
436 Iraq
438 Iran (Persia)
442 Israel
446 Jordan
452 Kuwait
454 Laos
456 Lebanon
457 Maldive Islands
458 Malaysia (including Sarawak and Sabah (formerly British North Borneo))
462 Muscat and Oman, Trucial States
464 Nepal
472 Pakistan
474 The Philippines
476 Portuguese possessions in Asia (Portuguese Timor and Macao)
478 Saudi Arabia
482 Singapore
488 South Viet-Nam (the Republic of Viet-Nam)
492 Thailand (Siam)
494 Yemen

ATTACHMENT

OCEANIA

502 Australia (with possessions)
504 British possessions in the Pacific
506 French possessions in the Pacific
512 Nauru
514 New Zealand (with possessions)
515 New Guinea
516 New Hebrides
518 United States possessions in the Pacific and Pacific Islands under the joint administration of the United Kingdom and the United States: Canton and Enderbury
522 Western Samoa

FEDERAL REPUBLIC OF GERMANY/WOOL

FEDERAL REPUBLIC OF GERMANY

Quotas are maintained by the FRG for imports of textiles, including wool and man-made fiber products, from Yugoslavia, Japan, India, Pakistan, Republic of China, Republic of Korea and the United Arab Republic in addition to those maintained by Eastern European countries.

A. German-Eastern European Trade Agreements: FRG maintains trade agreements with Bulgaria, Czechoslovakia, Hungary, Polan, Romania and Yugoslavia which provide ceilings on German imports of wool yarns and certain wool and man-made fiber fabrics and apparel products.

B. FRG requires licenses for the importation of certain wool yarns, fabrics and apparel and all man-made fiber products when the country of origin is on Country List B. Although the U.S. is included on this list, licenses for these products are granted freely for imports from the U.S.

C. A certificate of origin is required for all wool products, man-made fibers and yarn when imported from Hong Kong or Macao.

D. German-Japanese Trade Agreement of December 1967 provides for ceilings on Japanese exports of certain wool yarns, fabrics and apparel, and certain man-made fiber fabrics and apparel for 1967/68. FRG unwilling to announce 1969/70 ceilings.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION	
Federal Republic of Germany	Hungary	German-Hungarian trade protocol for 1969 includes the following ceilings on German imports of textile/apparel products from Hungary:	
		Item	**Quota in U.S. Dollars**
		Various textiles, fiber not specified	575,000
		Men's, women's and children's apparel, fiber not specified	600,000
		Knit and woven goods, fiber not specified	450,000
		(These quotas might be subject to a one-third increase)	
	Poland	German-Polish trade agreement of March 7, 1963, amended by protocol of March 21, 1968, includes the following ceilings on German imports of wool products from Poland for CY 1968.	
		Item	**Quota in U.S. Dollars**
		Fabrics of wool and synthetic fibers	73,000
		Various woven and knitted goods, fiber not specified	375,000
		Women's outergarments, fiber not specified	275,000
		Men's and women's undergarments, fiber not specified	225,000
		Fabric shoes, fiber not specified	75,000
		Textile handicrafts	37,500
	Czechoslovakia	German-Czechoslovak trade protocol of 1969 includes the following ceilings on German imports of textile/apparel products from Czechoslovakia.	
		Item	**Quota in U.S. Dollars**
		Woolen fabric and shawls	550,000
		Felt hats and head coverings, fiber not specified	250,000
		Textile products for industrial use, fiber not specified	400,000
		Carpets, fiber not specified	87,500
		Miscellaneous fabric, fiber not specified	425,000
		Knit and woven goods, fiber not specified	1,725,000
		Men's and women's apparel and underwear, fiber not specified	1,500,000
		German goods processed in Czechoslovakia	250,000

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Federal Republic of Germany	Japan	German-Japanese trade agreement of December 1967 provides for the following ceilings on Japanese exports of wool textile products. The quotas below are for the two-year period 1967/68, with half the quota for each year. FRG unwilling to release 1969/70 ceilings. **Item** — **Quota** Worsted yarn, not for retail sale — 470,000 kg. Yarn of wool or of fine animal hair, for retail sale — 110,000 kg. Wool fabric — $2,475,000 Outergarments, woven, of wool or man-made fibers — $3,575,000
	Country List B (see attachment)	Germany requires licenses for the importation of the wool textile products listed below. Import tenders are published annually without revealing, however, the import quotas allocated to the individual countries. Although the U.S. is included on Country List B, licenses for these products are granted freely for imports from the U.S. **Item** — **Tariff No.** Worsted yarn of wool, not put up for retail sale: containing at least 85 percent by weight of wool: uncabled: unbleached, other than hard worsted yarn — ex 5307.31 bleached, dyed or printed — 5307.35

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION: Item	RESTRICTION: Tariff No.
Federal Republic of Germany	Country List B (see attachment)	cabled:	
		unbleached, other than hard worsted yarn	ex 5307.41
		bleached, dyed or printed	5307.45
		containing less than 85 percent by weight of wool:	
		uncabled:	
		unbleached, other than hard worsted yarn	ex 5307.71
		bleached, dyed or printed	4307.75
		cabled:	
		unbleached, other than hard worsted yarn	ex 5307.81
		bleached, dyed or printed	5307.85
		Yarns of wool, put up for retail sale:	
		containing at least 85 percent by weight of wool:	
		hand-knitting and similar yarns of wool	5310.31
		other	5310.39
		containing less than 85 percent by weight of wool:	
		hand-knitting and similar yarns of wool	5310.41
		other	5310.49
		Wool fabrics:	
		containing at least 85 percent by weight of woolen textiles:	
		fabrics for blankets	5311.11
		other (except those for furniture and interior decoration exceeding 250 grams per square meter, felt cloth):	
		fabrics of woolen carded yarn	5311.31, 32, 33
		fabrics of woolen worsted yarn	5311.41, 42, 43, 45, 46, 47
		containing less than 85 percent by weight of woolen textiles:	
		fabrics for blankets	5311.61
		fabrics with warp wholly of continuous non-cellulosic textile fibers	5311.67

Continued . . .

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION Item	Tariff No.
Federal Republic of Germany	Country List B (see attachment)	fabrics with warp wholly of continuous cellulosic textile fibers	5311.68
		other (except those for furniture and interior decoration exceeding 250 grams per square meter; linings for outerwear)	
		fabrics of woolen carded yarn	5311.71, 72, 73
		fabrics of woolen worsted yarn	5311.81, 82, 83, 85, 86, 87
		Outer garments knitted or crocheted of wool:	
		pullover, twinsets, vests, blouses and the like 1/	6005.43
		dresses and costumes, complete	6005.33
		other outer garments (e.g., skirts, trousers)	6005.73
		Outer garments of woven textiles, for women and girls, of wool: except those consisting wholly or partly of tulle, laces, embroidery, or with drawn-thread work, applique work or similar decorative effects:	
		coats and jackets	6102.33
		costumes, complete	6102.43
		dresses	6102.53
		skirts	6102.63
		blouses	6102.73
		other outer garments (e.g., trousers, bath, beach and house robes, and jackets, except kimonos)	ex 6102.93

1/ Also subject to restrictions vis-a-vis imports from Hong Kong (Country List A) if country of origin and country of sale are not identical.

Länderliste B (Country List B)

Andorra
Finnland
Jugoslawien
Vatikanstadt

Ägypten
(Vereinigte Arabische Republik)
Äthiopien
Ghana
Guinea
Liberia
Libyen
Malawi
Marokko
Rhodesien, Süd-
Sambia
Sudan
Südafrika, Republik, einschl.
Südwestafrika, Basuto , Betschuana-,
Swasiland
Tunesien

Kanada
Vereinigte Staaten und zugehörige
Gebiete:
Panamakanal-Zone
Puerto Rico, Amerikanische
Jungferninseln
Riukiu-Inseln
(ohne nördliche Gruppe)
Ozeanien, Amerikanisch-
(Amerikanisch-Samoa, Guam,
Karolinen, Marianen,
Marschallinseln)

Costa Rica
Dominikanische Republik
El Salvador
Guatemala
Haiti
Honduras
Kuba
Mexiko
Nicaragua
Panama (ohne Kanalzone)
Argentinien
Bolivien
Brasilien
Chile
Ecuador
Kolumbien
Paraguay
Peru
Uruguay
Venezuela

Afghanistan
Bahrein
Bhutan
Birma
Ceylon
Indien
Indonesien
Irak
Iran
Israel
Japan

Jemen
Jordanien
Kambodscha
Katar
Korea, Süd-
Kuwait
Laos
Libanon
Malaysia
Maskat und Oman, Befriedetes Oman
Nepal
Pakistan
Philippinen
Saudi-Arabien
~~Sikkim~~ — Singapur
Syrien
Taiwan (Formosa)
Thailand (Siam)
Vietnam, Süd-

Australischer Bund,
Nauru (Trhgb.), Papua,
Neuguinea (Trhgb.), Norfolkinsel,
Weihnachtsinsel, Kokosinseln
Neuseeland,
Cookinseln,
Niue-Insel, Tokelau-Inseln
Westsamoa

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Federal Republic of Germany	Bulgaria	German-Bulgarian trade agreement of March 6, 1964, amended by trade protocol of June 12, 1969, with retroactive effect as from January 1, 1969, provides the following ceilings on German imports of wool fiber textile/apparel products from Bulgaria.

Item	Quota in U.S. Dollars
Men's, women's and children's undergarments and outergarments, fiber not specified	765,306
Foundation garments, fiber not specified	255,102
Carpets, handknotted and kalims	765,306
Household linen, fiber not specified	178,571
Knitwear and hosiery, fiber not specified	1,020,408

<table>
<tr><th>IMPORTING COUNTRY</th><th>COUNTRY OF ORIGIN</th><th>RESTRICTION</th></tr>
<tr><td>Federal Republic of Germany</td><td>Romania</td><td>German-Romanian trade agreement of August 1965 renegotiated December 1969. The 1967 ceilings on German imports of wool products from Romania are the latest levels available. These quotas might be subject to a one-third increase.
<table>
<tr><th>Item</th><th>Quota in U.S. Dollars</th></tr>
<tr><td>Woven wool</td><td>100,000</td></tr>
<tr><td>Knitted and woven goods, fiber not specified</td><td>375,000</td></tr>
<tr><td>Men's outergarments, fiber not specified</td><td>375,000</td></tr>
<tr><td>Women's outergarments, fiber not specified</td><td>175,000</td></tr>
<tr><td>Men's undergarments, fiber not specified</td><td>335,000</td></tr>
<tr><td>Women's undergarments, fiber not specified</td><td>100,000</td></tr>
<tr><td>Handkerchiefs, scarves, ties, collars, foundation garments, gloves, fiber not specified</td><td>75,000</td></tr>
<tr><td>Handicrafts (including blouses), fiber not specified</td><td>125,000</td></tr>
</table></td></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td></td><td>Hong Kong
Macao</td><td>A certificate of origin is required for all wool products when imported from Hong Kong or Macao.</td></tr>
</table>

FEDERAL REPUBLIC OF GERMANY/MAN-MADES

FEDERAL REPUBLIC OF GERMANY

Quotas are maintained by the FRG for imports of textiles, including wool and man-made fiber products, from Yugoslavia, Japan, India, Pakistan, Republic of China, Republic of Korea and the United Arab Republic in addition to those maintained by Eastern European countries.

A. German-Eastern European Trade Agreements: FRG maintains trade agreements with Bulgaria, Czechoslovakia, Hungary, Polan, Romania and Yugoslavia which provide ceilings on German imports of wool yarns and certain wool and man-made fiber fabrics and apparel products.

B. FRG requires licenses for the importation of certain wool yarns, fabrics and apparel and all man-made fiber products when the country of origin is on Country List B. Although the U.S. is included on this list, licenses for these products are granted freely for imports from the U.S.

C. A certificate of origin is required for all wool products, man-made fibers and yarn when imported from Hong Kong or Macao.

D. German-Japanese Trade Agreement of December 1967 provides for ceilings on Japanese exports of certain wool yarns, fabrics and apparel, and certain man-made fiber fabrics and apparel for 1967/68. FRG unwilling to announce 1969/70 ceilings.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Federal Republic of Germany	Bulgaria	German-Bulgarian trade agreement of March 6, 1964, amended by trade protocol of June 12, 1969, with retroactive effect as from January 1, 1969, provides the following ceilings on German imports of man-made fiber textile/apparel products from Bulgaria.

Item	Quota in U.S. Dollars
Men's, women's and children's undergarments and outergarments, fiber not specified	765,306
Foundation garments, fiber not specified	255,102
Polyester fibers, wadding and scrap	510,204
Carpets, handknotted and kalims	765,306
Household linen, fiber not specified	178,571
Knitwear and hosiery, fiber not specified	1,020,408

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Federal Republic of Germany	Romania	German-Romanian trade agreement of August 1965 re-negotiated December 1969. The 1967 ceilings on German imports of man-made fiber products from Romania are the latest levels available. These quotas might be subject to a one-third increase.

Item	Quota in U. S. Dollars
Man-made fibers and threads	750,000
Fabric of artificial fibers for re-export	100,000
Knitted and woven goods, fiber not specified	875,000
Fabric of man-made fibers	250,000
Men's outergarments, fiber not specified	375,000
Women's outergarments, fiber not specified	175,000
Men's undergarments, fiber not specified	325,000
Women's undergarments, fiber not specified	100,000
Handkerchiefs, scarves, ties, collars, foundation garments, gloves, fiber not specified	75,000
Handicrafts (including blouses), fiber not specified	125,000

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Federal Republic of Germany	Japan	German-Japanese trade agreement of December 1967 provides for the following ceilings on Japanese exports of man-made fiber textile products. The quotas below are for the two-year period 1967-68, with half the quota for each year. FRG unwilling to release 1969/70 ceilings.

Item	Quota
Man-made fiber fabric	$1,650,000
Fabric of cellulosic fibers, dyed, 135-145 meters wide	$1,250,000
Fabric of cellulosic fibers, unprocessed and bleached	27.2 million sq. mete
Outergarments, woven, of wool or man-made fibers	$3,575,000
Fabric of cellulosic fibers except unprocessed and bleached	$1,650,000

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IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Federal Republic of Germany	Hungary	German-Hungarian trade protocol for 1969 includes the following ceilings on German imports of textile/apparel products from Hungary:

Item	Quota in U.S. Dollars
Various textiles, fiber not specified	575,000
Men's, women's and children's apparel, fiber not specified	600,000
Knit and woven goods, fiber not specified	450,000

(These quotas might be subject to a one-third increase)

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
	Poland	German-Polish trade agreement of March 7, 1963, amended by protocol of March 21, 1968, includes the following ceilings on German imports of man-made fiber products from Poland for CY 1968.

Item	Quota in U.S. Dollars
Synthetic fibers and threads	125,000
Synthetic silk fabrics	175,000
Fabrics of wool and synthetic fibers	75,000
Caseine fibers	250,000
Cellulose, raw and processed	125,000
Various woven and knitted goods, fiber not specified	375,000
Women's outergarments, fiber not specified	275,000
Men's and women's undergarments, fiber not specified	225,000
Fabric shoes, fiber not specified	75,000
Textile handicrafts	37,500

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION	
Federal Republic of Germany	Czechoslovakia	German-Czechoslovak trade protocol of 1969 includes the following ceilings on German imports of textile/apparel products from Czechoslovakia.	
		Item	Quota in U. S. Dollars
		Felt hats and head coverings, fiber not specified	250,000
		Textile products for industrial use, fiber not specified	400,000
		Carpets, fiber not specified	87,500
		Miscellaneous fabric, fiber not specified	425,000
		Knit and woven goods, fiber not specified	1,725,000
		Men's and women's apparel and underwear, fiber not specified	1,500,000
		German goods processed in Czechoslovakia	250,000
		Semi-finished textiles, especially yarns, fiber not specified	300,000
		Linen and semi-linen fabrics	200,000
	Country List B (see attachment)	Germany requires licenses for the importation of man-made fiber products when the country of origin is on Country List B. Although the U. S. is included on this list, licenses for these products are granted freely for imports from the U. S.	
	Hong Kong Macao	A certificate of origin is required for man-made fibers and yarn when imported from Hong Kong or Macao.	

ATTACHMENT

Länderliste B (Country List B)

Andorra
Finnland
Jugoslawien
Vatikanstadt

Ägypten
(Vereinigte Arabische Republik)
Äthiopien
Ghana
Guinea
Liberia
Libyen
Malawi
Marokko
~~[illegible]~~
Sambia
Sudan
Südafrika, Republik, einschl.
Südwestafrika, Basuto-, Botschuana-,
Swasiland
Tunesien

Kanada
Vereinigte Staaten und zugehörige
Gebiete:
Panamakanal-Zone
Puerto Rico, Amerikanische
Jungferninseln
Riukiu-Inseln
(ohne nördliche Gruppe)
Ozeanien, Amerikanisch-
(Amerikanisch-Samoa, Guam,
Karolinen, Marianen,
Marschallinseln;

Costa Rica
Dominikanische Republik
El Salvador
Guatemala
Haiti
Honduras
~~Kuba~~
Mexiko
Nicaragua
Panama (ohne Kanalzone)
Argentinien
Bolivien
Brasilien
Chile
Ecuador
Kolumbien
Paraguay
Peru
Uruguay
Venezuela

Afghanistan
Bahrein
Bhutan
Birma
Ceylon
Indien
[illegible]nesien
Irak
Iran
Israel
Japan

Jemen
Jordanien
Kambodscha
Katar
Korea, Süd-
Kuwait
Laos
Libanon
Malaysia
Maskat und Oman, Befriedetes Oman
Nepal
Pakistan
Philippinen
Saudi-Arabien
Sikkim — Singapur
Syrien
Taiwan (Formosa)
Thailand (Siam)
Vietnam, Süd-

Australischer Bund,
Nauru (Trhgb.), Papua,
Neuguinea (Trhgb.), Norfolkinsel,
Weihnachtsinsel, Kokosinseln
Neuseeland,
Cookinseln,
Niue-Insel, Tokelau-Inseln
Westsamoa

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FRANCE/WOOL

FRANCE

A. Emergency trade measures imposed by GOF effective July 1, 1968 - December 31, 1968, included import ceilings on knit outerwear of all fibers and certain wool fiber fabrics, made-up goods and apparel from all countries.

B. Franco-Japanese Bilateral Trade Agreement: This agreement scheduled to expire March 1969 contains a provision for ceilings on French imports of certain wool and man-made fiber yarns, fabrics and apparel. In return for certain Japanese concessions, France has agreed, by 1969, to reduce by half the number of categories of imports from Japan which are subject to quota restrictions.

C. Franco-Indian Bilateral Trade Agreement: The bilateral agreement with India includes ceilings on French imports of wool knitwear, man-made fiber fabric and apparel other than cotton from India.

D. France requires licenses for the importation of certain wool yarns, fabrics, carpets and apparel and certain man-made fiber carpets and apparel products from any GATT countries (except OECD countries with the exception of Japan). These licensing arrangements are not administered in conjunction with any established quotas.

E. France makes use of licenses to restrict imports of certain wool and man-made fiber fabrics, carpets and apparel from Hong Kong.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
France	India	Franco-Indian bilateral trade arrangement includes a ceiling on French imports of certain wool fiber products from India. 1969 quotas are given below.

Tariff No.	Item	Quota in U. S. Dollars
60.04 ExB, 60.05 ExA	Wool knitwear	39,600
ex 61.01, ex 61.02, ex 61.03	Apparel other than cotton 1/	129,600
ex 61.06	Various textile articles: shawls, scarves, saris... other than cotton	p. m. 2/

1/ For these products importers must have their invoices countersigned by the Indian commercial office in Paris.

2/ The initials p. m. (pro memoria) signify that, although no quota is set, the agreement envisions trade in the item with each transaction subject to individual approval.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
France	Japan	Franco-Japanese trade agreement of May 14, 1963, reviewed annually. Protocol signed February 1969 provides the following ceilings on French imports of wool textile products for the period April 1, 1968 to March 31, 1969.

Item	Quota: Quantity in Metric Tons	Quota: Value in U.S. Dollars
Combed wool yarn for retail sale		305,000
Wool fabric	84	304,000 (indicative level)
Other textile articles except of cotton:		
Woven clothing		424,000
Knitted goods		118,000
Other articles		63,000

In late 1967 both countries agreed to a reduction in discriminatory quotas. In return for certain Japanese concessions, France agreed, by 1969, to reduce by half the number of categories of imports from Japan which are subject to quota restrictions; some wool textile items may be included but it is not yet known which ones.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION	
France	Hong Kong	France requires licenses for the importation of various wool products listed below. Licenses are not granted freely.	
		Item	**Tariff No.**
		Carpets, rugs, mats, matting of wool or of coarse animal hair containing more than 15% by weight of discontinuous cellulosic fibers	ex 58.02
		Gloves, mittens, and muffs, knitted or crocheted, not elastic nor rubberized	60.02
		Undergarments, knitted or crocheted, not elastic nor rubberized	60.04
		Outergarments and other articles, knitted or crocheted, not elastic nor rubberized	ex 60.05
		Men's and boys' outergarments	ex 61.01
		Women's, girls', and infants' outergarments	ex 51.02
		Men's and boys' undergarments including collars, shirtfronts and cuffs	61.03
		Women's, girls', and infants' undergarments	61.04
		Shawls, scarves, mufflers, veils, etc.	61.06
France	GATT Countries (except OECD countries other than Japan)	France requires licenses for the importation of various wool products listed below. Licenses are used to restrict imports although specific ceilings are not in force.	
		Item	**Tariff No.**
		Yarn of combed sheep's or lambs' wool, not put up for retail sale	53.07
		Woven fabric of sheep's or lambs' wool or of fine animal hair	53.11
		Carpets, rugs, etc.	58.02
		Gloves, mittens and mitts, knitted or crocheted, not elastic nor rubberized	60.02
		Undergarments, knitted or crocheted, not elastic nor rubberized	60.04
		Outergarments and other articles, knitted or crocheted, not elastic nor rubberized	60.05
		Men's and boys' outergarments, work clothes and other, except for judo garments	ex 61.01
		Women's, girls' and infants' outergarments	ex 61.02
		Men's and boys' undergarments, including collars, shirtfronts and cuffs	61.03
		Women's, girls' and infants' garments, knitted or crocheted, not elastic nor rubberized	61.04
		Shawls, scarves, mufflers, mantillas, veils, etc.	61.08

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
France	Poland	Franco-Polish Long-Term Trade Agreement of October 22, 1965, amended by trade protocol of February 13, 1969, includes the following ceilings on Polish exports of wool products to France for CY 1969.

BTN No.	Item		Quota U.S. Dollars 1/
53.11	Wool fabric, wool/polyester blends		28,828
58.02	Carpets, fiber not specified		45,045
ex 58.04 Bex II	Velvet	(35 MT)	(72,072)
60.01 60.04 60.06	Knitwear, except gloves		(99,099)
61.01A	Work clothing		(18,018)
Chapter 61	Men's and women's undergarments and outer-garments, of which not more than 320 are men's shirts		(198,198)
61.05-.11	Clothing accessories, including handkerchiefs		(27,027)
62.01	Blankets		18,018
	Miscellaneous textiles		(90,090)

1/ Dollar value in parentheses only indicative level

FRANCE/MAN-MADES

FRANCE

A. Emergency trade measures imposed by GOF effective July 1, 1968 - December 31, 1968, included import ceilings on knit outerwear of all fibers and certain man-made fiber fabrics, made-up goods and apparel from all countries.

B. Franco-Japanese Bilateral Trade Agreement: This agreement scheduled to expire March 1969 contains a provision for ceilings on French imports of certain wool and man-made fiber yarns, fabrics and apparel. In return for certain Japanese concessions, France has agreed, by 1969, to reduce by half the number of categories of imports from Japan which are subject to quota restrictions.

C. Franco-Indian Bilateral Trade Agreement: The bilateral agreement with India includes ceilings on French imports of wool knitwear, man-made fiber fabric and apparel other than cotton from India.

D. France requires licenses for the importation of certain wool yarns, fabrics, carpets and apparel and certain man-made fiber carpets and apparel products from any GATT countries (except OECD countries with the exception of Japan). These licensing arrangements are not administered in conjunction with any established quotas.

E. France makes use of licenses to restrict imports of certain wool and man-made fiber fabrics, carpets and apparel from Hong Kong.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
France	Japan	Franco-Japanese trade agreement of May 14, 1963, reviewed annually. Protocol signed February 1969 provides the following ceilings on French imports of man-made fiber products for the period April 1, 1968 to March 31, 1969.

Item	Quota: Quantity in Metric Tons	Quota: Value in U.S. Dollars 1/
Non-cellulosic filament yarn (of which 33 tons of yarn is more than 400 turns per meter)	92	(277,000)
Cellulosic filament yarn	219	(253,000)
Non-cellulosic woven filament fabric	91	(458,000)
Cellulosic woven filament fabric, printed	32	(80,000)
Cellulosic woven filament fabric, unprinted	48	(160,000)
Non-cellulosic spun yarn fabrics	61	(365,000)
Cellulosic spun yarn fabrics, printed	137	(250,000)
Cellulosic spun yarn fabrics, unprinted	63	(250,000)
Other textile articles, except cotton:		
Woven clothing		(424,000)
Knitted goods		(118,000)
Other articles		(63,000)

1/ Dollar value in parentheses only indicative level

In late 1967 both countries agreed to a reduction in discriminatory quotas. In return for certain Japanese concessions, France agreed, by 1969, to reduce by half the number of categories of imports from Japan which are subject to quota restrictions; some man-made fiber textile items may be included but it is not yet known which ones.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION	
France	Hong Kong	France requires licenses for the importation of various man-made fiber products listed below. Licenses are not granted freely.	
		Item	**Tariff No.**
		Woven fabrics of sheep's or lambs' wool or of fine animal hair or of a blend containing more than 15% by weight of cellulosic fibers and discontinuous non-cellulosic fibers	ex 53.11
		Carpets, rugs, mats, matting of wool or of coarse animal hair containing more than 15% by weight of discontinuous cellulosic fibers	ex 58.02
		Gloves, mittens, and muffs, knitted or crocheted, not elastic nor rubberized	60.02
		Undergarments, knitted or crocheted, not elastic nor rubberized	60.04
		Outergarments and other articles, knitted or crocheted, not elastic nor rubberized	ex 60.05
		Men's and boys' outergarments	ex 61.01
		Women's, girls', and infants' outergarments	ex 61.02
		Men's and boys' undergarments including collars, shirtfronts and cuffs	61.03
		Women's, girls', and infants' undergarments	61.04
		Shawls, scarves, mufflers, veils, etc.	61.06
	GATT Countries (except OECD countries other than Japan)	France requires licenses for the importation of various man-made fiber products listed as follows. Licenses are used to restrict imports although specific ceilings are not in force.	
		Item	**Tariff No.**
		Carpets, rugs, etc.	58.02
		Gloves, mittens and mitts, knitted or crocheted, not elastic nor rubberized	60.02
		Undergarments, knitted or crocheted, not elastic nor rubberized	60.04
		Outergarments and other articles, knitted or crocheted, not elastic nor rubberized	60.05
		Men's and boys' outergarments, work clothes and other, except for judo garments	ex 61.01
		Women's, girls' and infants' outergarments	ex 61.02
		Men's and boys' undergarments, including collars, shirtfronts and cuffs	61.03
		Women's, girls' and infants' garments, knitted or crocheted, not elastic nor rubberized	61.04
		Shawls, scarves, mufflers, mantillas, veils, etc.	61.06

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
France	India	Franco-Indian bilateral trade arrangement includes a ceiling on French imports of certain man-made fiber products from India. 1969 quotas are given below.

Tariff No.	Item	Quotas in U.S. Dolla
51.04 56.07	Man-made fiber woven fabrics (of which not more than $27,000 for staple fiber fabrics) 1/	162,000
ex 61.01, ex 61.02, ex 61.03	Apparel other than cotton 1/	129,600
ex 61.06	Various textile articles: shawls, scarves, saris... other than cotton	p.m. 2/

1/ For these products importers must have their invoices countersigned by the Indian commercial office in Paris.

2/ The initials p.m. (pro memoria) signify that, although no quota is set, the agreement envisions trade in the item with each transaction subject to individual approval.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
France	Poland	Franco-Polish Long-Term Trade Agreement of October 22, 1965, amended by trade protocol of February 13, 1969, includes the following ceilings on Polish exports of man-made fiber products to France for CY 1969.

BTN No.	Item	Quota Metric Tons	Quota U.S. Dollars 1/
51.04A	Non-cellulosic fiber fabric	8	(41,441)
56.07A			
51.04 ex B	Rayon fabric	50	(90,090)
56.07	Fibranne fabric	45	(50,450)
ex 54.05	Table, bed and bath linens	100	(288,288)
62.02			
ex 58.04	Plush fabric		(14,414)
58.04B ex II	Velvet	35	(72,072)
58.02	Carpets		(45,045)
60.04	Knitwear, except gloves		(99,099)
61.01A	Work clothing		(18,018)
Chapter 61	Men's and women's undergarments and outergarments, of which not more than 320 are men's shirts		(198,198)
61.05-.11	Clothing accessories, including handkerchiefs		(27,027)
	Miscellaneous textiles		(90,090)

1/ Dollar value in parentheses only indicative level

ITALY/WOOL

ITALY

A. Italian-Japanese Trade Protocol of October 15, 1955: The 1969 agreement for the period October 1, 1969 - September 30, 1970, provides for ceilings on Italian imports of certain wool and man-made fiber yarns, fabrics, made-up goods and apparel from Japan.

B. Italy applies quota restrictions on certain fabrics, carpets and apparel items of all fibers imported from the following Eastern European countries: Democratic Republic of Germany, Czechoslovakia, Hungary, Poland, Romania and the Peoples Republic of China.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Italy	Japan	Italian-Japanese trade protocol of October 18, 1955, renewed annually. 1969 agreement for the period October 1, 1969-September 30, 1970, provides for the following ceilings on Italian imports of wool textile products from Japan.

Tariff No.	Item	Quota in U.S. Dollars
53.07	Worsted yarn	160,000
53.11	Woven fabrics of sheep's or lambs' wool or of fine animal hair	360,000 1/
ex 58.04	Woven pile and chenille fabrics, except of cotton, excluding items under No. 55.08 and No. 58.05	70,000
ex 58.05	Narrow woven fabrics, except of cotton, excluding items under No. 58.06	70,000
Apparel and Clothing Accessories (except of cotton)		
	Knitted and crocheted goods	
ex 60.05	Outergarments, not elastic or rubberized	70,000
	Other than knitted or crocheted	
61.02	Women's, girls', and infants' outergarments	70,000
Other Made-up Articles, except of Cotton		
ex 62.02	Bed linen, table line, kitchen linen, curtains	70,000

1/ Italy will consider the issuance of import licenses beyond the established amounts, whenever the Italian market situation may permit.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Italy	Eastern Europe	The following ceilings apply to textile products imported from Eastern Europe into Italy in CY 1970.

Country of Origin	Item	Quota in U.S. Dollars
Democratic Republic of Germany	Tulle, drapery fabrics, of all fibers	$100,000
	Carpets, tapestries, of all fibers	$100,000
	Apparel, of all fibers	$100,000
Czechoslovakia	Drapery fabrics, of all fibers	$150,000
	Wool fabrics	$240,000
Poland	Socks and stockings, of all fibers	$ 32,000
	Wool fabrics	$112,000
	Hosiery and apparel	$640,000
Romania	Apparel, of all fibers	$480,000
	Hosiery	$ 47,695
Hungary	Apparel, of all fibers	$256,000
Albania	Carpets, of all fibers	$200,000
	Wool knits	$ 32,000
Peoples Republic of China	Felt and velvet	$208,000
	Tulle	$208,000
	White goods	$1,920,000

ITALY/MAN-MADES

ITALY

A. Italian-Japanese Trade Protocol of October 15, 1955: The 1969 agreement for the period October 1, 1969 - September 30, 1970, provides for ceilings on Italian imports of certain wool and man-made fiber yarns, fabrics, made-up goods and apparel from Japan.

B. Italy applies quota restrictions on certain fabrics, carpets and apparel items of all fibers imported from the following Eastern European countries: Democratic Republic of Germany, Czechoslovakia, Hungary, Poland, Romania and the Peoples Republic of China.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Italy	Japan	Italian-Japanese trade protocol of October 18, 1955, renewed annually. 1969 agreement for the period October 1, 1969 - September 30, 1970, provides for the following ceilings on Italian imports of man-made fiber textile products from Japan.

Tariff No.	Item	Quota in U.S. Dollars
51.04	Woven fabrics of continuous man-made fiber	440,000
56.07	Woven fabrics of discontinuous man-made fiber or waste	600,000 1/2/
ex 58.04	Woven pile and chenille fabrics, except of cotton, excluding items under No. 55.08 and No. 58.05	70,000
ex 58.05	Narrow woven fabrics, except of cotton, excluding items under No. 58.06	70,000
Apparel and Clothing Accessories (except of Cotton)		
	Knitted and crocheted goods	
ex 60.05	Outer garments, not elastic or rubberized	70,000
	Other than knitted or crocheted	
ex 61.02	Women's, girls', and infants' outer-garments	70,000
ex 61.05	Handkerchiefs	70,000
Other made-up articles, except of cotton		
ex 62.02	Bed linen, table linen, kitchen linen, curtains	70,000

1/ Italy will consider the issuance of import licenses beyond the established amounts, whenever the Italian market situation may permit.
2/ Temporary imports.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Italy	Eastern Europe	The following ceilings apply to textile products imported from Eastern Europe into Italy in CY 1970.

Country of Origin	Item	Quota in U.S. Dollars
Democratic Republic of Germany	Tulle, drapery fabrics, of all fibers	$100,000
	Carpets, tapestries, of all fibers	$100,000
	Apparel, of all fibers	$100,000
Czechoslovakia	Drapery fabrics, of all fibers	$150,000
	Man-made fiber fabrics	$240,000
	Blankets of man-made fibers	$200,000
Poland	Hosiery and apparel	$640,000
	Socks and stockings, of all fibers	$ 32,000
	Man-made fiber fabrics	$350,000
Romania	Man-made fiber fabrics	$120,000
	Apparel of all fabrics	$480,000
	Hosiery	$ 47,695
Hungary	Apparel of all fibers	$256,000
	Man-made fiber fabrics	$192,000
Albania	Carpets of all fibers	$200,000
Peoples Republic of China	Felt and velvet	$208,000
	Tulle	$208,000
	White goods	$1,920,000
	Yarns of man-made fibers	$ 96,000

NORWAY/WOOL

NORWAY

A. Norwegian-Japanese Trade Agreement for the period October 1, 1969 - September 30, 1970. The agreement includes ceilings on Japanese exports of certain wool fabrics, knit goods and apparel to Norway.

B. Norway requires licenses for the importation of all textile and apparel products from the Republic of Korea. Specific ceilings are not in force.

C. Norwegian-Eastern European Trade Agreements: Norway maintains trade agreements with Bulgaria, Czechoslovakia, Hungary, Poland, and Romania which provide ceilings on Norwegian imports of certain textiles. Separate ceilings on wool products are not in force.

D. In December 1968 Norwegian-Yugoslav trade officials were considering the imposition of ceilings on Yugoslav exports of men's and boys' wool outerwear.

E. Norwegian-Hong Kong trade agreement renewed September 1969 includes ceilings on Hong Kong exports of various wool apparel products to Norway for 12 months beginning October 1, 1969.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Norway	Hong Kong	Norwegian-Hong Kong trade agreement renewed September 1969 provides for ceilings on Hong Kong exports of the following wool apparel items for the year beginning October 1, 1969. Tariff No. / Item / Quota ex 841.462, 465 / Men's, boys', women's and girls' jackets, jumpers, sweaters, cardigans and pullovers, knitted or crocheted, wholly or mainly of sheep's wool including lambs' wool / 90,000 dozen
	Japan	Norwegian-Japanese Trade Agreement for the period October 1, 1969 - September 30, 1970. The agreement includes ceilings on Japanese exports of certain wool fabrics, knit goods and apparel to Norway.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Norway	Hungary	Norwegian-Hungarian bilateral trade agreement includes a provision for a ceiling of $14,100 on Hungary's exports of hosiery and socks to Norway during the year 1968-1969. In addition, licenses are required for the importation of hosiery, undergarments and household furnishings of all fibers. Separate ceilings for wool and man-made fiber products are not in force.
	Poland Bulgaria Romania	Bilateral trade agreements include a licensing requirement for the imporation of hosiery, undergarments and household furnishings of all fibers. Separate ceilings for wool and man-made fiber products are not in force. Total textile quota for Bulgaria is $80,000, the smallest for any Eastern European Country.
	Czechoslovakia	Norwegian-Czechoslovak trade agreement under negotiation. Expected to contain quotas on textile items.
	Republic of Korea	Licenses are required for the importation of all textile/apparel products. The Ministry of Commerce and Shipping "regulates" the importation of yarn and fabric of all fibers (except cotton, hemp and jute) and made-ups and apparel of all fibers. However, specific ceilings are not in force.
	Yugoslavia	Norwegian-Yugoslav trade officials were considering during December 1968 the imposition of ceilings on Yugoslav exports of men's and boys' wool outerwear to Norway during CY 1969.

NORWAY/MAN-MADES

NORWAY

A. Norwegian-Japanese Trade Agreement for the period October 1, 1969 - September 30, 1970. The agreement includes ceilings on Japanese exports of certain man-made fiber yarns, fabrics, knit goods and apparel.

B. Norway requires licenses for the importation of all textile and apparel products from the Republic of Korea. Specific ceilings are not in force.

C. Norwegian-Eastern European Trade Agreements: Norway maintains trade agreements with Bulgaria, Czechoslovakia, Hungary, Poland, and Romania which provide ceilings on Norwegian imports of certain textiles. Separate ceilings on man-made fiber products are not in force.

D. In December 1968 Norwegian-Yugoslav trade officials were considering the imposition of ceilings on Yugoslav exports of men's and boys' man-made fiber outerwear.

E. Norwegian-Hong Kong trade agreement renewed September 1969 provides for a system of export authorization for 12 months beginning October 1, 1969, whereby the Norwegian Government will receive advance information on the development of Hong Kong exports of certain man-made fiber apparel products.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Norway	Japan	Norwegian-Japanese Trade Agreement for the period October 1, 1969 - September 30, 1970. For items on list I, licenses are issued automatically up to specified levels, at which point the two countries consult "with a view to finding appropriate measures for the development of trade between the two countries." The agreement includes ceilings on Norwegian imports of certain man-made fiber yarns, fabrics, knit goods and apparel. Details LOU.
	Poland	Norwegian-Polish bilateral trade agreement 1968-1970 includes a provision on Poland's exports of various man-made fiber products to Norway during 1969. **Item** — **Quota in U.S. Dollars** Ladies' nylon stockings — 84,600 Woven cotton piece goods, bleached, multi-colored, not printed; woven piece goods of cotton and/or spun rayon or other discontinuous man-made fiber — 98,700 In addition licenses are required for the importation of man-made fiber fabrics as well as hosiery, undergarments and household furnishings of all fibers. Separate ceilings for wool and man-made fiber products are not in force.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Norway	Hungary	Norwegian-Hungarian bilateral trade agreement includes a provision for the following annual ceilings on Hungary's exports to Norway during 1968-1969. Item — Quota Hosiery and socks of all textile fibers — $14,100 Handkerchiefs of all textile fibers — 10 tons Piece goods, not printed, of cotton and/or rayon staple fiber — $70,500 In addition, licenses are required for the importation of man-made fiber fabrics as well as hosiery, under-garments and household furnishings of all fibers. Separate ceilings for wool and man-made fiber products are not in force.
	Czechoslovakia	Norwegian-Czechoslovak trade agreement under negotiation. Expected to contain quotas on textile items.
	Hong Kong	Norwegian-Hong Kong trade agreement provides for a system of export authorization for the year beginning October 1, 1969, whereby the Norwegian Government will receive advance information on Hong Kong exports of the following man-made fiber products. No export license for these items will be issued unless an Export Authorization has previously been obtained.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION	
		Tariff No.	Item
Norway	Hong Kong	841.739	Women's and girls' blouses and jumpers, not knitted or crocheted, wholly or mainly of polyester, nylon (polyamide) or rayon, not embroidered
		ex 841.863	Men's and boys' sweaters, jackets, jumpers, cardigans, pullovers, knitted or crocheted, wholly or mainly of acrylic fiber
		841.844	Women's and girls' undergarments, knitted or crocheted, not elastic or rubberized, wholly or mainly of synthetic fiber
	Bulgaria Romania		Bilateral trade agreements include a licensing requirement for the importation of man-made fiber fabrics, as well as hosiery, undergarments and household furnishings of all fibers. Separate ceilings for wool and man-made fiber products are not in force. Total textile quota for Bulgaria is $80,000, the smallest for any Eastern European country.
	Republic of Korea		Licenses are required for the importation of all textile/apparel products. The Ministry of Commerce and Shipping "regulates" the importation of yarn and fabric of all fibers (except cotton, hemp and jute) and made-ups and apparel of all fibers. However, specific ceilings are not in force.
	Yugoslavia		Norwegian-Yugoslav trade officials were considering during December 1968 the imposition of ceilings on Yugoslav exports of men's and boys' man-made fiber outerwear to Norway during CY 1969.

SWEDEN/WOOL

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Sweden	Japan	Swedish-Japanese bilateral trade agreement for the period April 1, 1970, to March 31, 1971, provides for a ceiling of $2.5 million on Japanese exports of various textiles including the following wool products.

Tariff No.	Item
53.10	Yarn of sheep's or lambs' wool, of horsehair or of other animal hair (fine or coarse), put up for retail sale
53.11-.13	Woven fabrics of wool and other animal hair
58.04	Woven pile fabrics and chenille fabrics
58.05	Narrow woven fabrics, and narrow fabrics (bolduc) consisting of warp without weft assembled by means of an adhesive
58.06	Woven labels, badges and the like, not embroidered, in the piece, in strips or cut to shape or size
59.03	Bonded fiber fabrics and articles of bonded fiber fabrics, whether or not impregnated or coated
59.13	Elastic fabrics and trimmings (other than knitted or crocheted goods) consisting of textile materials combined with rubber threads
60.01-.06	Knitted or crocheted fabric, not elastic nor rubberized
ex 61.01, 61.02-.04	Men's, boys', women's and girls' outergarments and undergarments, not knitted or crocheted.
ex 61.06	Shawls, scarves, mufflers, mantillas, veils and the like
61.10	Gloves, mittens, mitts, stockings, socks and sockettes, not knitted or crocheted goods
62.01	Travelling rugs and blankets
62.02	Bed linen, table linen, toilet linen and kitchen linen; curtains and other furnishing articles
62.05	Other made up textile articles (including dress patterns)
ex 65.05	Hats and other headgear (including hair nets), knitted or crocheted, or made up from lace, felt or other textile fabric in the piece (but not from strips), whether or not lined or trimmed

SWEDEN

Swedish-Hong Kong Memorandum of Understanding of July 4, 1968, renewed June 1969, provides ceilings on Hong Kong exports of wool apparel products to Sweden for one-year beginning July 1, 1969.

July 1968 Sweden reintroduced a licensing requirement on certain wool yarn, fabric, knit goods and apparel from Taiwan.

Swedish-Eastern European trade agreements. Sweden has bilateral trade agreements with all Eastern European countries which are usually renewed every 5 years. Separate ceilings for wool products are not available.

Swedish-Yugoslav agreement of June 1968 which applied restraints on Yugoslav exports to Sweden of certain wool house furnishing fabrics, knitwear and apparel remains in force.

Swedish-Korea trade agreement renewed March 1970 for one year includes ceilings on certain wool apparel items.

Swedish-Japanese bilateral trade agreement for the period April 1, 1970, to March 31, 1971, provides for a ceiling of $2.5 million on Japanese exports of certain yarn, fabric and apparel products to Sweden.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Sweden	Hong Kong	Swedish-Hong Kong Memorandum of Understanding of July 4, 1968, renewed June 1969 provides the following ceilings on Hong Kong exports of wool apparel products to Sweden for a 12-month period commencing July 1, 1969. Item — Quota in Pieces Women's and Girls' Jackets, jumpers, sweaters, cardigans and pullovers, knitted or crocheted, wholly or mainly of sheep's wool (including lambs' wool) or of man-made fiber — 1,675,000 Any items listed above which are substantially embroidered or beaded will not be included within the scope of the restraint, provided that exporters submit samples to the Hong Kong Government Department of Commerce and Industry when applying for export licenses outside quota. Export Authorization System: During the period July 6, 1968 - June 30, 1969, export licenses for the products listed below were to be issued only against export authorizations. Item Jackets, jumpers, sweaters, cardigans and pullovers, knitted or crocheted, wholly or mainly of sheep's wool (including lambs' wool), men's and boys' wear.
	Republic of China	Effective July 25, 1968, Sweden reintroduced a licensing requirement on the following wool products. Specific ceilings are not in force. Item — BTN Chapter No. Wool yarn and fabric — 53 Carpets, carpeting and rugs, "Kelems," etc. — 58 Woven pile fabrics and chenille fabrics, narrow woven fabrics and other narrow fabrics, woven labels, badges, etc., net fabrics — 58

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION	
Sweden		**Item**	**BTN Chapter No.**
	Republic of China	Articles of wadding	59
		Felt and articles of felt	59
		Bonded fiber fabrics and articles thereof	59
		Textile fabrics coated with gum or amylaceous substances	59
		Textile fabrics impregnated or coated with preparations of cellulose derivatives or of other artificial plastic materials	59
		Textile fabrics coated with gum or amylaceous substances	59
		Textile fabrics impregnated or coated with preparations of cellulose derivatives or of other artificial plastic materials	59
		Textile fabrics coated or impregnated with oil, rubberized fabrics except rubberized knitted goods, and textile fabrics otherwise impregnated or coated	59
		Knitted goods and knitwear	60
		Outergarments and underwear, including foundation garments, stockings, gloves, mitten, etc.	61
		Miscellaneous manufactured textile products	62
		(Above regulations adopted partly to control Hong Kong products shipped from the Republic of China)	

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Sweden	Peoples Democratic Republic of Korea, Albania, Democratic Republic of Vietnam, Mongolia	All textile/apparel products are subject to licensing. Specific ceilings are not in force.
	USSR, Poland, Hungary, Romania, Bulgaria, Czechoslovakia, Democratic Republic of Germany	Sweden has bilateral trade agreements with all Eastern European countries which are usually renewed every 5 years with annual reviews of commodity lists. When a quota for textiles of all kinds is established in the annual reviews of bilateral trade agreements between Sweden and these countries, the Swedish Board of Trade issues import licenses to the agents/importers of such textile products. At its own discretion, the Board of Trade may break down the total textile quota for each country into different categories (cotton, wool, synthetics, etc.), this being a purely internal matter within the Board. A board official informed the Embassy that in breaking down the total quotas, it may consider what kinds of textiles are available from domestic sources and the particular situation prevailing in different sectors of the domestic textile industry.
	Peoples Republic of China	Swedish Board of Trade determines ceilings on goods imported from Communist China. Ceiling levels are not made public.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION	
Sweden	Yugoslavia	Swedish-Yugoslav agreement, effective June 27, 1968, remains valid. Yugoslavia agreed to restrain exports to Sweden of the following commodities. Specific ceilings are not in force.	
		Item	Tariff No.
		Stockings, understockings, socks, ankle socks, sockettes, etc., knitted or crocheted, not elastic or rubberized	60.03
		Outergarments and other articles, knitted or crocheted, not elastic or rubberized	60.05
		Men's and boys' outergarments, excluding rubberized raingear, gym shorts, beach clothing and swim trunks	ex 61.01
		Women's, girls', and infants' outergarments excluding rubberized rainwear, beach clothing and bathing suits, and blouses	ex 61.02
		Travelling rugs and blankets	62.01
		Bed linen, table linen, toilet linen and kitchen linen; curtains and other furnishing articles	62.02
		At the same time, the above items were placed under Swedish import licensing requirement, if manufactured in Yugoslavia and purchased or imported from a third country.	

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IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Sweden	Republic of Korea	Swedish-Korean trade agreement in effect March 1, 1969-February 29, 1970, provided the following ceilings on Korean exports of apparel. Item — Quota in U.S. Dollars Jackets — 80,000 Shirts — 210,000 As a result of negotiations concluded March 6, 1970, Sweden agreed to raise the quotas for the items above by about 10 percent for the next year.

SWEDEN/MAN-MADES

SWEDEN

Swedish-Hong Kong Memorandum of Understanding of July 4, 1968, renewed June 1969, provides ceilings on Hong Kong exports of man-made fiber apparel products to Sweden for one year beginning July 1, 1969.

July 1968 Sweden reintroduced a licensing requirement on certain man-made fiber fabric, knit goods and apparel from Taiwan.

Swedish-Eastern European trade agreements. Sweden has bilateral trade agreements with all Eastern European coutries which are usually renewed every 5 years. Separate ceiling for man-made fiber products are not available.

Swedish-Yugoslav agreement of June 1968 which applied restraints on Yugoslav exports to Sweden of certain man-made fiber house furnishing fabrics, knitwear and apparel remains in force.

Swedish-Korea trade agreement renewed March 1970 for one year includes ceilings on certain man-made fiber apparel items.

Swedish-Japanese bilateral trade agreement for the period April 1, 1970 to March 31, 1971, provides for a ceiling of $2.5 million on Japanese exports of certain yarn, fabric and apparel products to Sweden.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Sweden	Hong Kong	Swedish-Hong Kong Memorandum of Understanding of July 4, 1968, renewed June 1969 provides the following ceilings on Hong Kong exports of man-made fiber products to Sweden for a 12-month period commencing July 1, 1969.

Item	Quota in Pieces
Women's & Girls'	
Jackets, jumpers, sweaters, cardigans and pullovers, knitted or crocheted, wholly or mainly of man-made fiber or of wool	1,675,000
Men's & Boys'	
Anoraks and similar jackets, not knitted or crocheted, wholly or mainly of man-made fiber	180,000

Any of the items listed above which are substantially embroidered or beaded will not be included within the scope of the restraint provided that exporters submit samples to the Hong Kong Government Department of Commerce and Industry when applying for export licenses outside quota.

Export Authorization System: During the period July 6, 1968 - June 30, 1969, export licenses for the products listed below were to be issued only against export authorizations.

Item
Women's & Girls'
Undergarments (excluding nightwear), knitted or crocheted, not elastic or rubberized, wholly or mainly of continuous man-made fibers
Anoraks and similar jackets, not knitted or crocheted, wholly or mainly of continuous non-cellulosic fiber
Blouses, not knitted or crocheted, wholly or mainly of continuous or discontinuous non-cellulosic fibers, not embroidered, (excluding blouses wholly or mainly of cellulosic fiber)
Dress shirts, not knitted or crocheted, wholly or mainly of discontinuous non-cellulosic fiber (excluding dress shirts wholly or mainly of cellulosic fiber)

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Sweden	Republic of China	Effective July 25, 1968, Sweden reintroduced a licensing requirement on the following man-made fiber products. Specific ceilings are not in force.

Item	BTN Chapter No.
Man-made fiber yarn and fabric	51, 56
Discontinuous man-made fibers and waste	56
Carpets, carpeting rugs, "Kelems," etc.	58
Woven pile fabrics and chenille fabrics, narrow woven fabrics and other narrow fabrics, woven labels, badges, etc., net fabrics	58
Articles of wadding	59
Felt and articles of felt	59
Bonded fiber fabrics and articles therefore	59
Twine, cordage, ropes and cables; nets and netting thereof	59
Made-up fishing nets of yarn, twine, cordage and rope	59
Textile fabrics coated with gum or amylaceous substances	59
Textile fabrics impregnated or coated with preparations of cellulose derivatives or of other artificial plastic materials	59
Textile fabrics coated or impregnated with oil, rubberized fabrics except rubberized knitted goods, and textile fabrics otherwise impregnated or coated	59
Elastic fabrics consisting of textile materials combined with rubber threads	59
Textile hosepiping and similar tubing	59
Textile transmission, conveyor or elevator belts or belting	59
Textile fabrics and articles of a kind commonly used in machinery or for related technical purposes	59
Knitted goods and knitwear	60

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION	
Sweden		Item	BTN Chapter No.
	Republic of China	Outergarments and underwear, including foundation garments, stockings, gloves, mittens, etc.	61
		Miscellaneous manufactured textile products	62
		(Above regulations adopted partly to control Hong Kong products shipped from the Republic of China)	
	Albania, Democratic Republic of Vietnam, Peoples Democratic Republic of Korea, Mongolia	Most textile/apparel products are subject to licensing. Specific ceilings are not in force.	
	USSR, Poland, Hungary, Romania, Bulgaria, Czechoslovakia, Democratic Republic of Germany	Swedish has bilateral trade agreements with all Eastern European countries which are usually renewed every 5 years with annual reviews of commodity lists. When a quota for textiles of all kinds is established in the annual reviews of bilateral trade agreements between Sweden and the above countries, the Swedish Board of Trade issues import licenses to the agents/importers of such textile products. At its own discretion, the Board of Trade may break down the total textile quota for each country into different categories (cotton, wool, synthetics, etc.), this being a purely internal matter within the Board. A board official informed the Embassy that in breaking down the total quotas, it may consider what kinds of textiles are available from domestic sources and the particular situation prevailing in different sectors of the domestic textile industry.	
	Peoples Republic of China	Swedish Board of Trade determines ceilings on goods imported from Communist China. Ceiling levels are not made public.	

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Sweden	Republic of Korea	Swedish-Korean trade agreement in effect March 1, 1969-February 29, 1970, provided the following ceilings on Korean exports of apparel.

Item	Quota in U. S. Dollars
Ankle socks and men's stockings other than wool	213, 000 dozen pairs
Jackets	80, 000
Shirts	210, 000

As a result of negotiations concluded March 6, 1970, Sweden agreed to raise the quotas for the items above by about 10 percent for the next year.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Sweden	Yugoslavia	Swedish-Yugoslav agreement, effective June 27, 1968, remains valid. Yugoslavia agreed to restrain exports to Sweden of the following commodities. Specific ceilings are not in force.

Item	Tariff No.
Stockings, understockings, socks, ankle socks, sockettes, etc., knitted or crocheted, not elastic or rubberized	60.03
Undergarments, knitted or crocheted, not elastic or rubberized	60.04
Outergarments and other articles, knitted or crocheted, not elastic or rubberized	60.05
Men's and boys' outergarments, excluding rubberized raingear, gym shorts, beach clothing and swim trunks	ex 61.01
Women's, girls', and infants' outergarments, excluding rubberized rain-wear, beach clothing and bathing suits, and blouses	ex 61.02
Men's and boys' undergarments, including collars, shirtfronts and cuffs	61.03
Travelling rugs and blankets	62.01
Bed linen, table linen, toilet linen and kitchen linen; curtains and other furnishing articles	62.02

At the same time, the above items were placed under Swedish import licensing requirement, if manufactured in Yugoslavia and purchased or imported from a third country.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
Sweden	Japan	Swedish-Japanese bilateral trade agreement for the period April 1, 1970, to March 31, 1971, provides for a ceiling of $2.5 million on Japanese exports of various textiles including the following man-made fiber products.

Tariff No.	Item
51.04	Woven fabric of continuous man-made fibers
56.06	Yarn of man-made fibers (discontinuous or waste), put up for retail sale
ex 56.07	Woven fabrics of man-made fibers (discontinuous or waste)
58.04	Woven pile fabrics and chenille fabrics
58.05	Narrow woven fabrics, and narrow fabrics (bolduc) consisting of warp without weft assembled by means of an adhesive
58.06	Woven labels, badges and the like, not embroidered, in the piece, in strips or cut to shape or size
59.03	Bonded fiber fabrics and articles of bonded fiber fabrics, whether or not impregnated or coated
59.04	Twine, cordage, ropes and cables
ex 59.05	Nets and netting made of twine, cordage or rope, and made up fishing nets of yarn, twine, cordage or rope
59.07-.09, 12	Textile fabrics coated or impregnated with oil or preparations with a basis of drying oil
59.11	Rubberized textile fabrics, other than rubberized knitted or crocheted goods
59.13	Elastic fabrics and trimmings (other than knitted or crocheted goods) consisting of textile materials combined with rubber threads
59.15	Textile hosepiping and similar tubing
59.16	Transmission, conveyor or elevator belts or belting, of textile material
59.17	Textile fabrics and textile articles, of a kind commonly used in machinery or plant

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION	
		Tariff No.	Item
Sweden	Japan		
		60.01 - .06	Knitted or crocheted textile/apparel products
		ex 61.01, 61.02-.04	Men's, boys', women's and girls' outergarments and undergarments, not knitted or crocheted
		ex 61.06	Shawls, scarves, mufflers, mantillas, veils and the like
		61.10	Gloves, mittens, mitts, stockings, socks and sockettes, not knitted or crocheted goods
		62.01	Travelling rugs and blankets
		62.02	Bed linen, table linen, toilet linen and kitchen linen; curtains and other furnishing articles
		62.03	Sacks and bags, of a kind used for the packing of goods
		62.05	Other made up textile articles
		ex 65.05	Hats and other headgear (including hair nets), knitted or crocheted, or made up from lace, felt or other textile fabric in the piece)but not from strips), whether or not lined or trimmed

UNITED KINGDOM/WOOL

UNITED KINGDOM

A. Anglo-Japanese Commercial Treaty of November 1962: This agreement, reviewed annually, includes a provision for ceilings on Japanese exports of certain man-made fiber yarn, and some wool and man-made fiber fabric and apparel items.

B. Anglo-Eastern European Trade Agreements: The U.K. maintains bilateral trade agreements with Bulgaria, Czechoslovakia, Hungary, Poland and Romania which provide ceilings on U.K. imports of certain wool and man-made fiber yarns, fabrics, made-up goods and apparel from these Eastern European countries.

C. Anglo-Communist Chinese Trade Agreement: The U.K. established a trade agreement with the Peoples Republic of China which stipulates that imports from Communist China in 1969 are to be licensed at not less than the levels for 1967 and 1968. In addition, licenses are to be issued only to previous license holders.

The arrangement also includes a provision for ceilings on U.K. imports of certain wool fabric and knitwear, certain man-made fiber yarns and fabrics, and some apparel accessories of all fibers from Communist China.

EXPORTING COUNTRY	COUNTRY OF DESTINATION	RESTRICTION		
Japan	United Kingdom	The Anglo-Japanese commercial treaty of November 1962, reviewed anually includes a provision for ceilings on Japan's exports of the following wool products for 1968 and 1969.		
		Item	**Quota**	
			1968	**1969**
		Woven wool fabrics	1,000,000 sq.yds.	1,200,000 sq.yd.
		Knitted fabrics of man-made fibers and apparel (excluding gloves) of knitted, netted, or crocheted material of cotton, wool or man-made fibers (including stockings and socks)	$2,560,800	$2,944,800
		Outergarments (excluding gloves) of woven man-made fiber fabric; outergarments and underwear of woven cotton; handkerchiefs, shawls, scarves and mufflers except those of silk or linen	$6,596,400 of which not more than $ 942,000 for cotton	
		Knitted gloves, other than gloves knitted to shape	$ 552,000	Liberalized
		Lace and lace net and embroidery of all types	$ 192,000	Liberalized
		Narrow fabrics of all types and articles made therefrom	$ 307,200	$ 352,800

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
United Kingdom	Czechoslovakia	The Anglo-Czechoslovak bilateral trade agreement of 1968, to be reviewed annually for five years, contains a provision for ceilings on UK imports of certain textile/apparel products from Czechoslovakia.

Item	Quota in US Dollars
Woollen and worsted piece-goods, plushes, astrakhans and imitation fur	216,000
Furnishing fabrics of which not more than $72,720 for cotton and $48,000 for linen	312,000
Furnishing tapestries	120,000
Household goods (blankets, tablecloths, sheets, towels, etc.), and handkerchiefs, of which not more than $169,680 for cotton, $216,000 for linen goods (excluding linen tea towels) and $24,000 for embroidered handkerchiefs	648,000
Felts of all kinds	48,000
Stockings and socks	216,000
Braids and ribbons, woven labels, sparteries and laces of all kinds	528,000
Outerwear and underwear, the following:	
(a) Knitted underwear and overwear of all kinds of materials excluding lace or lace net	600,000
(b) Apparel including underwear other than apparel covered by (a) and excluding garments containing lace or lace net, or which not more than $756,000 for shirts	624,000
Hats, caps, berets and hoods (excluding silk or lace trimmed) of which not more than $168,000 for hats and hoods of wool or fur felt	312,000
Wool and wool blended yarns	48,000
Non-woven textiles of various materials	96,000
Gloves of which not more than $120,000 for leather gloves	192,000
Carpet slippers, with rubber soles and textile uppers	48,000

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
United Kingdom	Romania	A five year Anglo-Romanian bilateral trade agreement (1968-1973) contains a provision for annual ceilings on UK imports of certain textile/apparel products from Romania. Quotas given below are for the period October 1968-September 1969. Item — Quota in US Dollars Hosiery and knitwear (other than gloves) — 960,000 Other clothing, excluding clothing of natural fur or containing lace or lace net (of which not more than $168,000 for cotton clothing) — 1,080,000 Carpets and rugs (of which not more than $240,000 for carpets of a c.i.f. value of less than $12.00 per square yard) — 600,000
	Bulgaria	The United Kingdom maintains a bilateral trade agreement with Bulgaria for the 12 month period ending March 31, 1969. Annex A lists goods which cannot be freely imported from Bulgaria and require specific license. For some of these goods quotas appear on Annex B which enables them to be imported under specific license up to the level of the quota. Annex A Textiles, including man-made fibers, yarns and textile articles, not being carpets, rugs, nets or netting of uniform square or diamond shaped mesh knotted at each corner or yarns or twines of true hemp (canabis sativa) Annex B — Quota in U.S. Dollars Woollen textiles and woollen ready-made clothes — 48,000

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
United Kingdom	Hungary	The UK maintains a bilateral trade agreement with Hungary for the period 1968-1972. Annex A lists goods which cannot be freely imported from Hungary and require a specific license. For some of these goods quotas appear in Annex B which enables them to be imported under specific license up to the level of the quota. Latest available quotas are those for calendar year 1968.

Annex A

Textiles, including man-made fibers, yarns and textile articles, not being carpets, rugs, nets or netting of uniform square or diamond shaped mesh knotted at each corner or yarns or twines of true hemp (canabis sativa).

Annex B

Item	Quota in US Dollars
Worsted and woollen piece-goods and made-up articles of wool, excluding apparel	48,000
Stockings and socks	204,000
Knitwear, including knitted shirts, but excluding stockings and socks	1,320,000
Textile garments, not elsewhere specified, excluding garments wholly or mainly of lace, of which:	
(a) Other than cotton	1,080,000
Petit point handbags, panels and motifs and embroidered manufactures, including folkwork, handicraft products and hand-painted canvas, but excluding items wholly or mainly of lace	84,000
Miscellaneous textile manufactures not included elsewhere including blankets but excluding narrow fabrics of all types and articles wholly or mainly of lace:	
(a) other than cotton, of which not more than $24,000 for hat hoods	720,000
Gloves (of which not more than $480,000 for leather and fabric gloves)	648,000

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
United Kingdom	Poland	The UK maintains a bilateral trade agreement with Poland. Annex A lists goods which cannot be freely imported from Poland and which require a specific license. For some of these goods quotas appear in Annex B which enables them to be imported under specific license up to the level of the quota. Latest available quotas are those for calendar year 1968.

Annex A

Textiles, including man-made fibers, yarns and textile articles, not being carpets, rugs, nets or netting of uniform square or diamond shaped mesh knotted at each corner or yarns or twines of true hemp (canabis sativa).

Annex B

Item	Quota in US Dollars
Handicraft textile articles (subject to type) including hand-painted table covers	48,000
Textile haberdashery (subject to type)	120,000
Fabrics and made-up goods (other than clothing) of wool	48,000
Plush fabrics (of which not more than $96,000 for fabrics made wholly or mainly of cotton)	288,000
Ready-made clothes of textile materials (of which not more than $168,000 for clothes wholly or mainly of cotton)	1,476,000
Stockings and socks	240,000

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION	
United Kingdom	Peoples. Republic of China	Under an Anglo-Chinese trade arrangement imports from Communist China in 1969 are to be licensed at not less than the levels for 1967 and 1968. Licenses are issued only to previous license holders. This arrangement includes a provision for ceilings on U.K. imports of certain wool products.	
		Item	**Quota in U.S. Dollars**
		Gloves of all kinds, fiber not specified	360,000
		Woolen knitwear other than gloves, stockings and socks	84,000
		Woolen fabrics	48,000

UNITED KINGDOM/MAN-MADES

UNITED KINGDOM

A. Anglo-Japanese Commercial Treaty of November 1962: This agreement, reviewed annually, includes a provision for ceilings on Japanese exports of certain man-made fiber yarn, and some wool and man-made fiber fabric and apparel items.

B. Anglo-Eastern European Trade Agreements: The U.K. maintains bilateral trade agreements with Bulgaria, Czechoslovakia, Hungary, Poland and Romania which provide ceilings on U.K. imports of certain wool and man-made fiber yarns, fabrics, made-up goods and apparel from these Eastern European countries.

C. Anglo-Communist Chinese Trade Agreement: The U.K. established a trade agreement with the Peoples Republic of China which stipulates that imports from Communist China in 1969 are to be licensed at not less than the levels for 1967 and 1968. In addition, licenses are to be issued only to previous license holders.

The arrangement also includes a provision for ceilings on U.K. imports of certain wool fabric and knitwear, certain man-made fiber yarns and fabrics, and some apparel accessories of all fibers from Communist China.

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EXPORTING COUNTRY	COUNTRY OF DESTINATION	RESTRICTION		
Japan	United Kingdom	The Anglo-Japanese commercial treaty of November 1962, reviewed annually includes a provision for ceilings on Japan's exports of the following man-made fiber products for 1968 and 1969.		
		Item	**Quota 1968**	**Quota 1969**
		Spun yarn of man-made fibers	$106,428	215,000 lbs
		Woven man-made fiber fabrics, except re-export	6,000,000 sq. yds.	7,000,000 sq.
		Knitted fabrics of man-made fibers and apparel (excluding gloves) of knitted, netted, or crocheted material of cotton, wool or man-made fibers (including stockings and socks)	$2,560,800	$2,944,800
		Outergarments (excluding gloves) of woven man-made fiber fabric; outergarments and underwear of woven cotton; handkerchiefs, shawls, scarves and mufflers except those of silk or linen	$6,596,400 of which not more than $ 942,000 for cotton	
		Knitted gloves, other than gloves knitted to shape	$552,000	Liberalized
		Lace and lace net and embroidery of all types	$192,000	Liberalized
		Narrow fabrics of all types and articles made therefrom	$307,200	$352,800

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
United Kingdom	Peoples Republic of China	Under an Anglo-Chinese trade arrangement imports from Communist China in 1969 are to be licensed at not less than the levels for 1967 and 1968. Licenses are issued only to previous license holders. This arrangement also includes a provision for ceilings on U.K. imports of certain man-made fiber products.

Item	Quota in U.S. Dollars
Yarn, thread and woven fabrics, wholly or mainly of cotton or rayon, or of mixtures of cotton and rayon, for home consumption	363,000
Manufactures of cotton, linen, and man-made fibers (excluding yarns, threads, fabrics, footwear, carpets, lace, gloves, and linen handkerchiefs)	533,280
Gloves of all kinds, fiber not specified	360,000
Headgear (including hat bodies, hoods and shapes) not made wholly or partly of wool or felt	1,572,000

Licenses for loom-state woven fabrics wholly or mainly of cotton or rayon for processing and subsequent re-export will be issued on application to full value requested.

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
United Kingdom	Czechoslovakia	The Anglo-Czechoslovak bilateral trade agreement of 1968, to be reviewed annually for five years, contains a provision for ceilings on UK imports of certain textile/apparel products from Czechoslovakia.

Item	Quota in US Dollars
Grey cloth of cotton, man-made fibers, and mixtures thereof (excluding sailcloth or canvas of cotton not under 12 ounces per square yard) of which not more than $144,000 for cotton	180,000
Piece-goods of cotton and man-made fibers and mixtures thereof (excluding sailcloth of canvas of cotton not under 12 ounces per square yard) of which not more than $436,320 for cotton	792,000
Furnishing fabrics of which not more than $72,720 for cotton and $48,000 for linen	312,000
Furnishing tapestries	120,000
Book-binding cloth	4,800
Household goods (blankets, tablecloths, sheets, towels, etc.), and handkerchiefs, of which not more than $169,680 for cotton, $216,000 for linen goods (excluding linen tea towels) and $24,000 for embroidered handkerchiefs	648,000
Sailcloth or canvas of man-made fibers impregnated with PVC	48,000
Stockings and socks	216,000
Braids and ribbons, woven labels, sparteries and laces of all kinds	528,000
Outerwear and underwear, the following:	
(a) Knitted underwear and overwear of all kinds of materials excluding lace or lace net	600,000
(b) Apparel including underwear other than apparel covered by (a) and excluding garments containing lace or lace net, of which not more than $756,000 for shirts	624,000
Hats, caps, berets and hoods (excluding silk or lace trimmed) of which not more than $168,000 for hats and hoods of wool or fur felt	312,000

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION	
		Item	Quota in US Dollars
United Kingdom	Czechoslovakia	Non-woven textiles of various materials	96,000
		Man-made filament and fibers	240,000
		Nylon cord	36,000
		Gloves of which not more than $120,000 for leather gloves	192,000
		Carpet slippers, with rubber soles and textile uppers	48,000

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
United Kingdom	Hungary	The UK maintains a bilateral trade agreement with Hungary for the period 1968-1972. Annex A lists goods which cannot be freely imported from Hungary and require a specific license. For some of these goods quotas appear in Annex B which enables them to be imported under specific license up to the level of the quota. Latest available quotas are those for calendar year 1968.

Annex A

Textiles, including man-made fibers, yarns and textile articles, not being carpets, rugs, nets or netting of uniform square or diamond shaped mesh knotted at each corner or yarns or twines of true hemp (canabis sativa).

Annex B

Item	Quota in US Dollars
Piece-goods wholly or mainly of man-made fibers (including those woven on woollen or worsted machinery)	432,000
Stockings and socks	204,000
Knitwear, including knitted shirts, but excluding stockings and socks	1,320,000
Textile garments, not elsewhere specified, excluding garments wholly or mainly of lace, of which:	
(a) Other than cotton	1,080,000
Petit point handbags, panels and motifs and embroidered manufactures, including folkwork, handicraft products and hand-painted canvas, but excluding items wholly or mainly of lace	84,000
Miscellaneous textile manufactures not included elsewhere including blankets but excluding narrow fabrics of all types and articles wholly or mainly of lace:	
(a) other than cotton, of which not more than $24,000 for hat hoods	720,000
Gloves (of which not more than $480,000 for leather and fabric gloves).	648,000
Man-made staple fiber and continuous filament	540,000

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
United Kingdom	Poland	The UK maintains a bilateral trade agreement with Poland. Annex A lists goods which cannot be freely imported from Poland and which require a specific license. For some of these goods quotas appear in Annex B which enables them to be imported under specific license up to the level of the quota. Latest available quotas are those for calendar year 1968.

Annex A

Textiles, including man-made fibers, yarns and textile articles, not being carpets, rugs, nets or netting of uniform square or diamond shaped mesh knotted at each corner or yarns or twines of true hemp (canabis sativa).

Annex B

Item	Quota in US Dollars
Handicraft textile articles (subject to type) including hand-painted table covers	48,000
Textile haberdashery (subject to type)	120,000
Fabrics and made-up goods (other than clothing, lace or net) of man-made fibers	480,000
Plush fabrics (of which not more than $96,000 for fabrics made wholly or mainly of cotton)	288,000
Ready-made clothes of textile materials (of which not more than $168,000 for clothes wholly or mainly of cotton)	1,476,000
Stockings and socks	240,000

IMPORTING COUNTRY	COUNTRY OF ORIGIN	RESTRICTION
United Kingdom	Romania	A five year Anglo-Romanian bilateral trade agreement (1968-1973) contains a provision for annual ceilings on UK imports of certain textile/apparel products from Romania. Quotas given below are for the period October 1968-September 1969.
	Bulgaria	The United Kingdom maintains a bilateral trade agreement with Bulgaria for the 12 month period ending March 31, 1969. Annex A lists goods which cannot be freely imported from Bulgaria and require specific license. Annex A Textiles, including man-made fibers, yarns and textile articles, not being carpets, rugs, nets or netting of uniform square or diamond shaped mesh knotted at each corner or yarns or twines of true hemp (canabis sativa)

United Kingdom – Romania quotas:

Item	Quota in US Dollars
Man-made fibers, subject to type	432,000
Cotton and man-made fiber fabrics (of which not more than $72,000 for cotton)	480,000
Hosiery and knitwear (other than gloves)	960,000
Other clothing, excluding clothing of natural fur or containing lace or lace net (of which not more than $168,000 for cotton clothing)	1,080,000
Carpets and rugs (of which not more than $240,000 for carpets of a c.i.f. value of less than $12.00 per square yard)	600,000